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## NEWS SUMMARY

GENERAL BUSINESS

**Mugabe refuses ceasefire or Queen**

**Belgian franc remains weak**

**Uganda president expected in London**

**Labour change**

**Blasphemy kills boys**

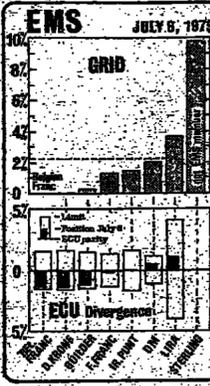
**Refugee ship**

**Poison probe**

**Premier move**

**Cost conscious**

**Briefly**



## Egypt appeals for \$18.5bn to offset Arab boycott

BY ROGER MATTHEWS IN CAIRO

The Egyptian Government has predicted grave consequences for its economy as a result of the Arab boycott, and has appealed to the world's main industrialised nations to provide \$18.5bn over the next five years to prevent "delays in the progress of peace."

In a document sent to the seven leaders at last month's summit meeting of industrialised nations in Tokyo, the Government of President Anwar Sadat warned that Egypt's overall balance-of-payments deficit this year could climb to \$5.4bn, compared with \$1.9bn in 1978.

These revised projections for 1979 were based on three main assumptions stemming from the Arab boycott imposed after the peace treaty was signed with Israel.

### Export fears

First, that exports might decline by about 8 per cent, while imports would drop by about 3 per cent.

Second, the probability that remittances sent from Egyptian workers abroad, and tourism, would both be badly hit. Egypt estimates that remittances may decline by \$1.25bn and tourism earnings by \$450m, that is to half their 1978 value.

Third, Egypt assumes that Arab deposits at the Central Bank totalling \$1.9bn will be withdrawn.

The document provides official confirmation for the first time that Arab bank deposits amounting to \$1bn have already been recalled, though it does not say whether Egypt is either willing or able to repay them.

### Lost loans

In addition Egypt says that the Gulf Organisation had previously agreed to re-lend to Egypt the interest and principal on the \$2bn on a revolving basis, and this "would have provided for Egypt an additional sum of \$2.7bn, which is the amount of principal and interest of the loan."

The decision by Saudi Arabia, Qatar and the United Arab Emirates to withdraw from the Arab Organisation for Industrialisation, the budding industry in which British and U.S. companies participate, would further cost Egypt the potential benefits of investments worth about \$1.5bn, according to the Sadat Government.

## Union declares war on labour law changes

BY ALAN PIKE, LABOUR CORRESPONDENT

GOVERNMENT proposals for changes in employment law, due to be outlined today, are guaranteed to run into immediate opposition from Britain's biggest union.



Mr. Harry Urwin: He hopes the Government will not get into a 1971 situation.

The executive of the Transport and General Workers' Union has unanimously approved a resolution for the union's conference which opens in Scarborough this morning urging the TUC to "mobilise maximum trade union resistance" to the proposed changes.

It pledges "full support for the strongest possible defence of basic trade union rights."

It is likely that the executive resolution, which accuses the Government of intending to "restrict trade union activity through legislative measures which will penalise the families of workers involved in industrial action," will be debated by delegates tomorrow.

The Government's intention to amend certain key areas of labour law was spelt out in the Conservative election manifesto. Today the Government is expected to outline its general thinking in a discussion paper from the Department of Employment.

This document will provide a basis for detailed consultations which Mr. James Prior, the Employment Secretary, is having with both sides of the industry preparatory to the tabling of a Bill in the autumn. The Government's document is unlikely to produce any great surprises in terms of either content or omissions. Action to contain secondary picketing, tight conditions for the introduction of future closed shops, with improved redress for the individual, and proposals for financial assistance to unions wishing to use secret ballots can be expected to be included.

The executive of the Transport and General Workers' Union is in a particularly strong position to know what to expect from the discussion paper. Mr. Harry Urwin, the union's deputy general secretary, is chairman of the TUC Employment Policy and Organisation Committee.

This committee has been involved in informal discussions with the Government and will be in the front line of the forthcoming debate on proposed changes.

Mr. Urwin said yesterday that the Conservative manifesto had made it clear that the Government wanted to reduce the bargaining power of unions, and the proposals were likely to produce a strong reaction from the TUC.

He hoped the Government would think carefully and "not get into a 1971 situation again." In 1971 the last Conservative Industrial Relations Act met concerted resistance from the unions.

## Post Office loses £35m on telegram services

BY JOHN LLOYD

The Post Office telegram services lost about £35m over the past financial year. Inland telegrams accounted for £10m of the loss and overseas telegrams £25m.

In the previous year inland telegrams lost £8.5m and overseas telegrams £26m.

The Post Office has committed itself to keep the service going in spite of the heavy losses. There has been a slight improvement in volume of inland telegram traffic—up from 3.2m in 1977-78 to 3.3m in 1978-79—but a fall in overseas traffic, from 13.9m to 12.8m.

### Decision

In an attempt to increase profitability on overseas telegrams, the corporation has told the three private international telegram operators that their licences—due to run out in 1981—will not be renewed.

It is believed that Sir Keith Joseph, the Industry Secretary, has been asked to review the decision in the course of a general study of the Post Office's monopoly.

The three private concerns are Western Union, Commercial Cable and PQ Cable. All have operated under licence from the Post Office since the nationalisation of cable traffic in 1947.

### Reconciled

Mr. Derek Ralph, London manager of PQ Cable—a subsidiary of a French company—said that traffic had been falling for some time, and that the company was reconciled to losing its cable traffic.

It has created PQ Telexsystems, a company which operates a telex bureau service, where there is considerable growth.

"We will leave the cable business with some regret, but it is a shrinking market. We appealed against the decision at the time, but the Post Office holds all the strings."

A monopoly goes on trial, Page 15

## Bonn attacks EEC farms surplus policy

BY JONATHAN CARR IN BONN

IN A new sign that support for reforming the Common Agricultural Policy is gaining ground in West Germany, Count Otto Lambsdorff, the Economics Minister, has criticised surplus production and suggested how the problem might be eased.

His comments are significant, not only because they were made before about 13,000 German farmers holding their national conference at Muenster this weekend, but because he has at last openly criticised aspects of a policy long defended by his party colleague, Herr Josef Ertl, the Agriculture Minister.

Both men are members of the small Free Democrat Party, whose leaders have for a long time held back from attacking the CAP publicly, so as not to complicate Herr Ertl's position.

However, it is now being recognised—even by Herr Ertl—that if surplus production continues to mount at its present rate, finance for the CAP will run out before long and the policy will collapse.

Count Lambsdorff agreed that farmers had a right to share in the general income improvement in West Germany. But he questioned whether this improvement should be as dependent on increases in farm prices as at present.

The market simply did not permit price increases in some key products, he said, and regulations could not function properly when more was being produced for sale into intervention at a guaranteed price than to match real demand.

He also warned that the EEC's agricultural export policy (under which surplus products are sold in other markets at subsidised prices) could damage prospects of successful talks between European nations and raw materials producers.

Count Lambsdorff said he seriously wondered whether direct income support for farmers with surplus products could not be introduced as a partial substitute for the present reliance on price increases.

This suggestion was promptly rejected by the German Farmers' Association, which insisted that price policy must remain the central instrument of agricultural income policy.

The association complained that following the recent EEC farm price decisions in Luxembourg, the position of the German farmer was more precarious than before.

## Imported cars take 56% of market

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

IMPORTERS WON a record 56 per cent of the new car market in June, a month when many other records were shattered.

Official industry statistics show that total sales topped 200,000 for the first time in any month. At 200,172 they were 51 per cent up on June, 1978, and 29 per cent up on the previous peak of 155,484 in June, 1972.

As previously reported, the six months to June were the first half-year in which more than 1m new cars were registered.

Importers' market penetration reached a record 55.44 per cent in the half-year, up from 47 per cent at the same stage last year. The first-half total of 1,031,330 new cars registered was 19 per cent higher than in 1978, according to the figures published by the Society of Motor Manufacturers and Traders.

In June this year, "captive" imports by UK-based manufacturers reached 18.7 per cent of the market. Ford took a 12.76 per cent market share with cars from Belgium, West Germany, Ireland and Spain.

Cars assembled abroad totalled 25,554 out of the 52,874 Ford cars sold in June, or 48.3 per cent of the group's registrations.

Ford lost some of its market share in the month, with a 26.4 per cent penetration. The Fiesta and Cortina were in short supply, possibly because of changes being made for the introduction of a "facelifted" Cortina in September.

Ford can usually count on selling 22,500 Cortinas a month. Continued on Back Page. Car registrations table Page 4

## Treasury Minister for U.S. talks on unitary taxation

BY DAVID FREUD

MR. PETER REES, Minister of State to the Treasury, is to visit the U.S. in September for wide-ranging talks on unitary taxation, which some individual American states are applying to British companies.

The visit is the result of increasing agitation by UK companies in the last few weeks against the principle of unitary taxation, which assesses companies on the basis of a proportion of their worldwide income rather than local profits.

"A group of 40 major British companies has called for the long-delayed U.S.-UK double tax treaty not to be considered by the Commons until there are firm moves in the U.S. to curb states' use of this method of taxation."

The Confederation of British Industry announced yesterday that it had written to the Chancellor, again expressing deep concern about unitary tax. It said that the proposed treaty would open the door to such taxation on UK companies in certain American States, such as California.

In the meantime Mr. Rees will have visited the U.S., where he aims to look at four specific areas in the controversy over unitary taxation.

He will hold talks with the Federal authorities on prospects of legislation to curb the practice.

Secondly he will see senators in an attempt to establish the standing of the proposed Matthis Bill on state taxation, which reduces states' rights to tax foreign companies on a unitary basis.

He will also try to establish whether there are prospects of the Supreme Court if a suitable case were brought, ruling unitary taxation of foreign companies unconstitutional.

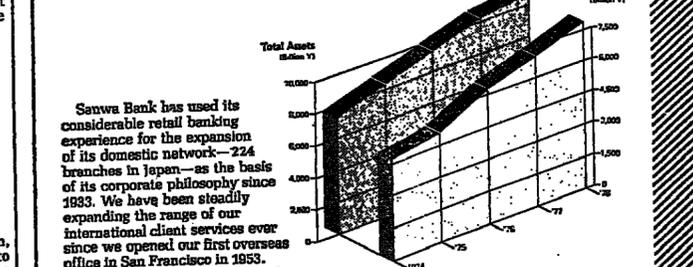
Finally, time permitting, he may go to California to discover how the state puts unitary taxation into effect, and what are the prospects of a change of approach there.

There is little disagreement between the two Governments and the UK companies on the undesirability of unitary taxation.

However, the tactical argument of the companies that pressure should be put on the U.S. by using the double tax treaty is believed to be dangerous, given the political climate of Washington.

A U.S. Administration whose first priority is the battle to push an energy policy through Congress cannot be expected to add to its difficulties for the sake of foreign companies.

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**CONTENTS**

Post Office: A monopoly on trial 12

Computers: Bright future for machines that talk... 13

Management: Calculated risk in electronics 9

Hustiman: A British closed shop case goes to Strasbourg 10

Editorial comment: East bloc rigidity; MPs pay 12

Lombard: Samuel Brittan on a strong case for doctrine 10

Appointments 14

Leader Page 12

Letters 12

Law 12

Mar and Money & Exchange 12

Overseas News 12

Party, Diary 12

Racing 12

Share Information 20-21

Special 12

Sport 12

Technology Page 12

Today's Events 12

UK News 12

Unit Trusts 12

Weather 12

World Trade 12

Base Lending Rates 15

Surveys

Hong Kong 12

For latest Share Index phone 01-946 8039

OVERSEAS NEWS

Arafat talks anger Israel

BY PAUL LENDVAI IN VIENNA

A FIERCE ROW has broken out between Israel and Austria because of talks here over the weekend involving Chancellor Bruno Kreisky, Herr Willy Brandt, president of the Socialist International, and Mr. Yasser Arafat, leader of the Palestine Liberation Organisation.

in occupied Arab territories Both Dr. Kreisky and Herr Brandt, who talked with Mr. Arafat for some 10 hours after his arrival from Bulgaria on Friday night, said that they had not gained the impression that recognition of legitimate rights, including self-determination for the Palestinians, was tantamount to destruction of Israel.

Vienna is seen in Lebanon as a major victory for the PLO. Some sympathisers compared the talks to Mr. Arafat's appearance before the United Nations General Assembly in 1974. A PLO spokesman said the invitation to Mr. Arafat was made three weeks ago and reflected European disapproval of the U.S. policy of ignoring the PLO in current moves for a Middle East solution.



Yasser Arafat - "a major victory"

New Italian Premier to be named today

By Rupert Cornwell in Rome

President Sandro Pertini will today name a new Prime Minister designate for Italy, after the weekend abandonment by Sig. Giulio Andreotti, the outgoing Premier, of his attempts to form a new Government.

The intense speculation and total uncertainty surrounding the President's decision are a sign of how intractable Italy's political crisis remains, just a month after the inconclusive General Election of early June. Sig. Pertini has the choice of asking another Christian Democrat to try where Sig. Andreotti failed - or for only the second time in over 30 years call on a non-CD "lay" politician to attempt to end the six-month period Italy has been without a Government with Parliamentary backing.

DC-10 checks may result in resumption of flights

BY JOHN WYLES IN NEW YORK

EIGHT U.S. AIRLINES' wings: 138 DC-10s have been grounded since June 6 have begun a new round of inspections ordered by the Federal Aviation Administration (FAA) which, it is hoped, will clear the way for the aircraft to resume operations.

But it is being speculated that a mechanical braking system will be added to the mechanisms to provide an extra safeguard. This, coupled with adjustments in the mechanism which the engine pivots attached to the wing, is expected to "completely" design changes the FAA will want to see.

Most observers do not believe that the FAA will insist on modifications to the grounded aircraft before they can fly again. But many in FAA makes its position on the possibility cannot be ruled out.

No ceasefire for Queen-Mugabe

BY OUR FOREIGN STAFF

MR. ROBERT MUGABE'S Mozambique-based wing of the Patriotic Front has said it will not observe a ceasefire during the Queen's visit to the Commonwealth Conference in Zambia. Bishop Abel Muzorewa, the Rhodesian Premier, has meanwhile pledged that his security forces will take no action that would endanger the Queen during her visit.

against the Zambian people or security forces. The Queen is due to start her nine-day visit to Zambia on July 27 and the conference opens on August 1. Before leaving for the U.S. and Britain, Bishop Muzorewa told a crowd of 4,000 that those who maintain trade sanctions against his country were "sick in the head."

Mark Webster reports from Lagos: Results in Nigeria's senatorial elections were slow coming in yesterday, after heavy rain in the south disrupted Saturday's polling and hampered communications.

France strengthens links with Iraq

BY ROBERT MAUTHNER IN PARIS

THE OFFICIAL visit which M. Raymond Barre, the French Prime Minister, is at present paying to Iraq, is expected in Paris to lead to both closer economic and political relations with a country which is one of France's main oil suppliers after Saudi Arabia.

It is significant, too, that Barre is accompanied by a Michel Delebarre, the head of France's Atomic Energy Commission, which suggests nuclear co-operation between the two countries is an important item on the agenda of the talks.

After an agreement earlier this year, Iraq has undertaken to step up its oil deliveries to France by 25 per cent to 25m tonnes, thus providing France with more than one-fifth of its total requirements for imported crude in 1979. To pay for these imports, France has made no secret of its desire to step up its arms sales to Iraq. Negotiations for a package of French Mirage F-1 fighters and other arms, estimated to be worth nearly \$200m, were completed by the French and Iraqi Defence Ministers during talks here in May this year.

The French Government has been insisting lately on controls over exports of nuclear equipment to prevent the proliferation of nuclear weapons. France is believed to be unlikely to make an exception for Iraq, however, for economic reasons. On the political level, Franco-Iraqi relations have much improved because France's public reservation about the Camp David agreement between Israel and Egypt can be little doubt that Iraq looks on France, which is all along insisted that a Middle East settlement must include a satisfactory solution of the Palestinian problem. The President of the Revolutionary Command Council and effective head of the Iraqi Government.

Strauss no easy opponent Schmidt warns party

BY JONATHAN CARR IN BONN

CHANCELLOR Helmut Schmidt has warned his party it could pay dearly if it underestimated Herr Franz-Josef Strauss, the opposition's new candidate for the Chancellorship in general elections next year. Breaking his silence on the nomination for the first time, Herr Schmidt told Social Democrat Party (SPD) supporters at the weekend that Herr Strauss was no easy opponent. It would be dangerous to assume that many voters had made up their minds in advance to reject Herr Strauss, and that therefore the SPD could relax its election campaign efforts.

policy statements—for example on foreign or union affairs. Herr Schmidt's comments reflect fears in the Government coalition camp that too many party workers may be inclined to write off Herr Strauss as "bogey man" and leave him to make self-destructive mistakes. Comments by Herr Strauss the week-end indicate he is moving carefully to ensure solidarity from all sectors of the opposition, even those who do not normally espouse his more Right-wing views. He had words of praise for Dr. Helmut Kohl, the middle-of-the-road Christian Democrat who has long been a rival. He rejected suggestions coming notably from his own Bavarian Christian Social Union (CSU) party, that Dr. Kohl should give up his leadership of the opposition group in Parliament.

Explosion highlights threat to Iran's oil pipelines

BY OUR OWN CORRESPONDENT

Iran's national oil company was unable to account yesterday for an explosion that ripped through an oil pipeline and wrecked a gas line and several other oil lines between Abadan and the export terminal of Bandar Mahshahr in the oil province of Khuzestan. Suggestions of sabotage by various political groups ripped through the nervous political community in Tehran after the explosion on Saturday, but information from the south indicated that it was an accident. An official of the National Iranian Oil Company said the flow of oil and gas in the pipeline was stopped immediately. Fire fighting units from Abadan and Bandar Mahshahr were hurried to the area and the major blaze was brought under control within an hour. Oil that had spilled in the desert continued to burn for many hours. No casualties were reported. Estimates of the loss of oil ranged from 20,000 barrels to 100,000 barrels. Officials reported that there had been no interruption in the flow of exports because of reserves in stock. Oil engineers said the damage could probably be repaired in a couple of days. NIOC officials dismissed the fire as "not very serious" but the incident pinpoints the vulnerability of oil industry installations. The hundreds of miles of exposed pipelines cannot be guarded constantly. NIOC has been increasingly uneasy about security in the oilfields.

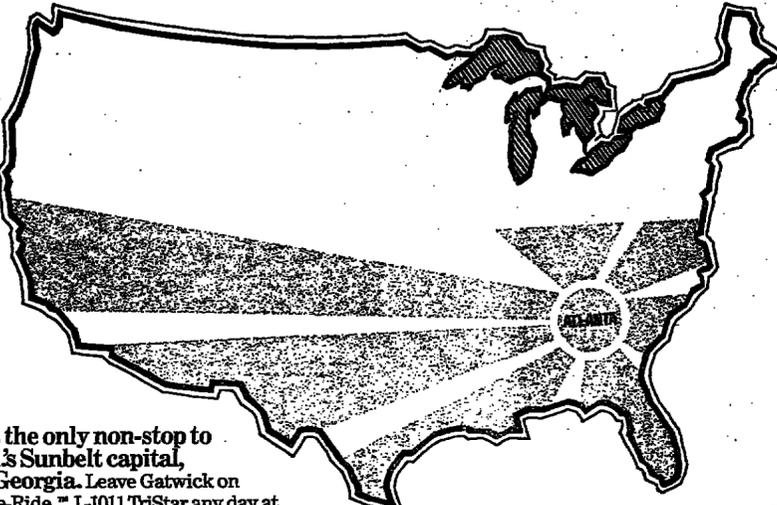
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Budget protest strikes hit Pakistan cities

A GENERAL strike to protest at last month's Budget passed off in Pakistan yesterday without major incident, although many cities and towns were affected. Simon Henderson reports from Islamabad. Karachi was almost completely shut down. The Government-run bus service still operated, but taxis and minibuses were off the roads. Two buses were reported burnt by demonstrators and tyres were set on fire at several points.

Elsewhere the strike, organised by the Pakistan National Alliance, which resigned from the Government in April, was less complete. Protests at the increases on fuel, cooking oil and milk powder has already prompted President Zia to call a meeting of industrial leaders and economists today.

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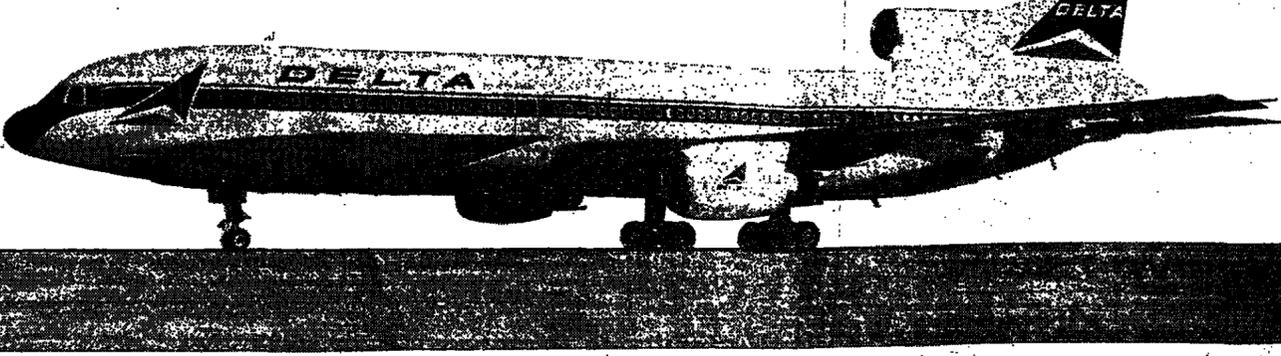


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# U.S. hopes pact will bring rapid rise in China trade

BY DAVID BUCHAN IN WASHINGTON

U.S. TARIFFS on Chinese goods will drop sharply from the present average of 24 per cent to an average 5.5 per cent under the framework trade agreement signed over the weekend between the two countries. It would give Chinese exports most-favoured-nation or non-discriminatory tariff treatment in the U.S. market.

By contrast, tariff benefits for the U.S. will be minimal. Government officials in Washington say, because China has no structured tariff code and U.S. exports to China are probably capital intensive enough to escape duties, even if it had.

But the U.S. sees gains for business in parts of the pact governing patents, trademarks, copyrights, allowing the U.S. to set up official and private trade offices in Peking, and letting U.S. companies compete in the Chinese market on an equal basis with their West European and Japanese competitors.

Mrs. Juanita Kreps, the U.S. Commerce Secretary, who initiated the agreement with the Chinese in May, hailed it as a significant contribution to expanding U.S.-Chinese economic ties. Her department

estimates that, with the new agreement likely to come into effect early next year, total two-way U.S.-China trade could expand from around \$2bn this year to \$5bn by 1985.

Its estimate is that the balance of that trade will continue to run in favour of the U.S., with U.S. exports reaching \$3.5bn by 1985 and Chinese exports to the U.S. \$1.5bn. That is in the context of the persistent deficit which the U.S. has run for several years with the rest of the world.

However, the Carter Administration has still not disclosed when it will submit the China trade pact to Congress for approval. President Carter has to ask Congress to waive in the case of China the Jackson-Vanik amendment that bars U.S. tariff and Export-Import Bank credit concessions to Communist countries that do not permit free emigration.

While there is little doubt in the Administration or on Capitol Hill that China's emigration policy is liberal enough for that amendment to be waived, Mr. Carter may want to move cautiously to avoid irritating the Soviet Union, to which he had earlier promised

to try to grant most-favoured-nation status.

The Soviet Union has offered no assurances so far to the U.S. on its emigration policy. But it might take offence at the U.S.-China trade agreement and this could prove politically awkward as the SALT debate starts in the U.S. Senate.

Assuming the Jackson-Vanik amendment is waived for China by Congress, which will have 60 days to consider the trade agreement once it is formally submitted by the Administration, "the Export-Import" Bank will be free to offer credit and loans on export deals to China. But officials say this will be done on a case-by-case basis. The U.S. will not be offering Peking a general government-backed line of credit, as many West European countries have done.

More than half U.S. exports to China this year will be agricultural, between \$700m and \$900m, the commerce department estimates. But it also sets strong export potential in several industrial and construction sectors, such as hotels, iron ore and non-ferrous metal mining, oil, power, coal and transport equipment.

# U.S. jeans companies seek Soviet plant deal

By Stewart Fleming in New York

THE THREE leading U.S. blue jeans manufacturers have been asked to bid on a contract to help Russia build a plant which would supply the Soviet Union with a form of clothing once seen by that country as symbolic of Western decadence.

The Russians do not appear to be interested in having a factory built to produce jeans with the names of Halston, Gloria Vanderbilt or Anne Klein plastered on them. Instead Levi Strauss of San Francisco, Blue Bell of Greensboro, which makes Wrangler jeans, and the VF Corporation, which sells under the Lee Label, are the Soviet choices. Their wares sell at around \$20 per pair.

The manufacturers are not releasing details of their negotiations, but all seem agreed that there is, as a Blue Bell official put it, tremendous demand for blue jeans in the USSR.

Issues which will need to be resolved, however, are who will operate the new plant and who will own it. The market may be big, but U.S. corporations are always anxious to see the bottom line.

# ISRAEL'S TRADE

## Learning to live with a deficit

BY MARGARET HUGHES, RECENTLY IN TEL AVIV

AFTER INFLATION the problem of reducing its widening trade deficit is Israel's major economic preoccupation and one which the country has lived with since its establishment.

Israel succeeded in reducing the visible trade gap during 1976 and 1977 bringing the deficit down to \$1.73bn (£779m) from its 1975 peak of \$2.28bn. But its visible trade deficit was up again last year to \$1.89bn, and was markedly higher in the first quarter of this year.

Mr. Meir Livnat, director of the foreign trade division of Israel's Ministry of Industry, Trade and Tourism, acknowledges that the widening deficit is a problem which Israel will have to live with "for many, many years." There is little prospect of reducing the deficit in the foreseeable future. The best Israel can hope to do is to minimise the increase so that the trade deficit does not become an insurmountable problem in the longer term.

Last year visible exports totalled \$3.92bn representing an increase of 25 per cent on the previous year, when the growth in exports was higher, at 32 per cent. In real terms, however, the increase of 25 per cent on the (excluding diamonds) was only 2 per cent compared with an average gain of 17 per cent in the two preceding years.

Imports, meanwhile, rose 19 per cent last year to \$5.86bn against an increase of 18 per cent in 1977. Excluding diamonds and defence imports, the growth in volume amounted to 10 per cent compared with a minimal increase in 1977 and an actual decline in 1976.

There has been a further widening of the visible deficit during the first quarter of this

year of 59 per cent to \$759m, with imports showing a further increase of 20 per cent to \$1.8bn against a rise in imports of only 11 per cent to \$1.03bn.

Given the structure of Israel's imports there is little scope for tackling the problem by reducing imports. Some 25 per cent of the import bill goes towards defence. Last year this was up nearly 48 per cent and, even given the peace treaty, with Egypt, this sector will continue to be a major drain on resources.

In addition Israel has to import virtually all its raw materials. Oil and minerals account for some 12 to 13 per cent of imports and will have increased considerably following the latest OPEC price increases.

Capital goods imports are another key element in the imports bill as Israel strives to step up its industrial development to minimise its traditional dependence on agriculture, all the more so since industry has, of necessity, to be capital-intensive because of the shortage of labour.

Capital goods imports increased by nearly 30 per cent last year to account for 15 per cent of the total.

A rapidly expanding import sector is consumer goods. Last year these imports were up 22 per cent to \$420m, but in the current year they are expected to show an increase of well over 80 per cent. This is already in evidence, in the first quarter, when a rise of 59 per cent reflected the consumer spending boom prompted by the rush to minimal increase in 1977 and an actual decline in 1976.

Furthermore, when the present Government came to power it liberalised imports as part of its new economic policy.

Israel's agreement with the EEC aims at eliminating all duties on imports from the EEC by 1989.

Thus the main effort to reduce the trade deficit is being directed at increasing exports.

Indeed, the narrowing of the trade gap which was achieved during 1967-77 was largely the result of stepping up exports. The value of exports now covers some 66 per cent of imports against only 45 per cent in 1975.

Increasing emphasis also is being placed on changing the structure of exports. Citrus, which 30 years ago accounted for 65 per cent of the total, today accounts for only some 5.6 per cent while other agricultural goods account for only another 7 per cent.

The potential for increasing exports further is limited by the scarcity of cultivable land and water. Efforts have, however, been made to diversify into more lucrative export earners such as flowers and out-of-season fruit and vegetables. A further problem on the horizon is the increased competition which Israel will face in its main market, the EEC, when countries such as Spain, Greece and Portugal are members.

About a third of Israel's exports to the EEC are agricultural products. Israel is attempting to renegotiate its agreement reached with the EEC in 1975 so that its agricultural produce will enjoy the same free access as these new members. With a widening trade gap with the EEC—it imports about three times what it exports to the EEC—Israel would also like to step up its industrial exports which, despite having tariff-free access to the EEC, are in

Israel's view, hampered by non-tariff barriers.

Such has been the change in the structure of Israel's exports that industrial goods now account for 53 per cent of the total. This excludes polished diamonds which at \$1.32bn last year account for 36 per cent of exports but whose net contribution to the balance of payments is far less as the rough diamonds are imported.

It is within the industrial sector that Israel now sees its main export potential and in the high technology, high added-value end of the market.

Israel's main markets are the EEC and U.S., which respectively account for 36 per cent and 19 per cent of total Israeli exports. Israeli goods are geared to the needs of these two main markets, and Israel is anxious that its export effort should not be weakened by attempting to sell too many products in too many markets.

Israel, however, is anxious to find new markets closer to home. Having lost a valuable market worth \$100m last year in Iran, it does not expect its exports to Egypt to amount to more than \$20m-\$30m a year, rising perhaps to the \$50m-\$100m over the next five or ten years.

The Israeli Export Institute's aim is to increase industrial exports in real terms by 25 per cent a year, but the trade body admits there has been virtually no real growth so far in the current year. Israel's export effort is being hampered by the high level of local consumption and a shortage of production capacity, while the high level of domestic inflation is affecting the competitiveness of its exports.

# SHIPPING REPORT

## Cargo rates enter stable phase

BY IAN HARGREAVES, SHIPPING CORRESPONDENT

TANKER RATES bobbed upwards last week on the strength of a heavy volume of inquiry, but dry cargo rates seem to have entered a stable phase.

A very large crude carrier of 250,000 dwt was chartered from the Gulf for a westward voyage at Worldscale 55.

good a rate as the market has seen for a long time.

Outlook remains uncertain, however, with a large number of ships due to arrive at loading terminals. In the medium term, the increase in oil output from Saudi Arabia should help to underpin tanker markets.

Firmness in dry cargo

markets is still principally due to grain business, although with higher steel production forecast in Japan, some assistance is carriers.

There is still, however, no sign that owners of dry cargo ships are ready to go for period charters.

For British owners, there is the increasing and unaccustomed problem of the strength of sterling.

This is perhaps one consideration behind the progressive sale of London and Overseas Freighters' fleet of SD14 cargo liners.

Another agreement has been made by shipping lines serving Europe and the Middle East in an effort to consolidate rates and prevent cut-throat competition. Seven of the largest container and "ro-ro" carriers between the UK and Jeddah say that from August they will operate on a common tariff and rules of carriage.

# UK assets at risk in Iran

By Lorne Baring

The UK's Export Credits Guarantee Department could be faced with major claims under its overseas investment insurance scheme if Iran goes ahead with announced plans to nationalise all foreign interests.

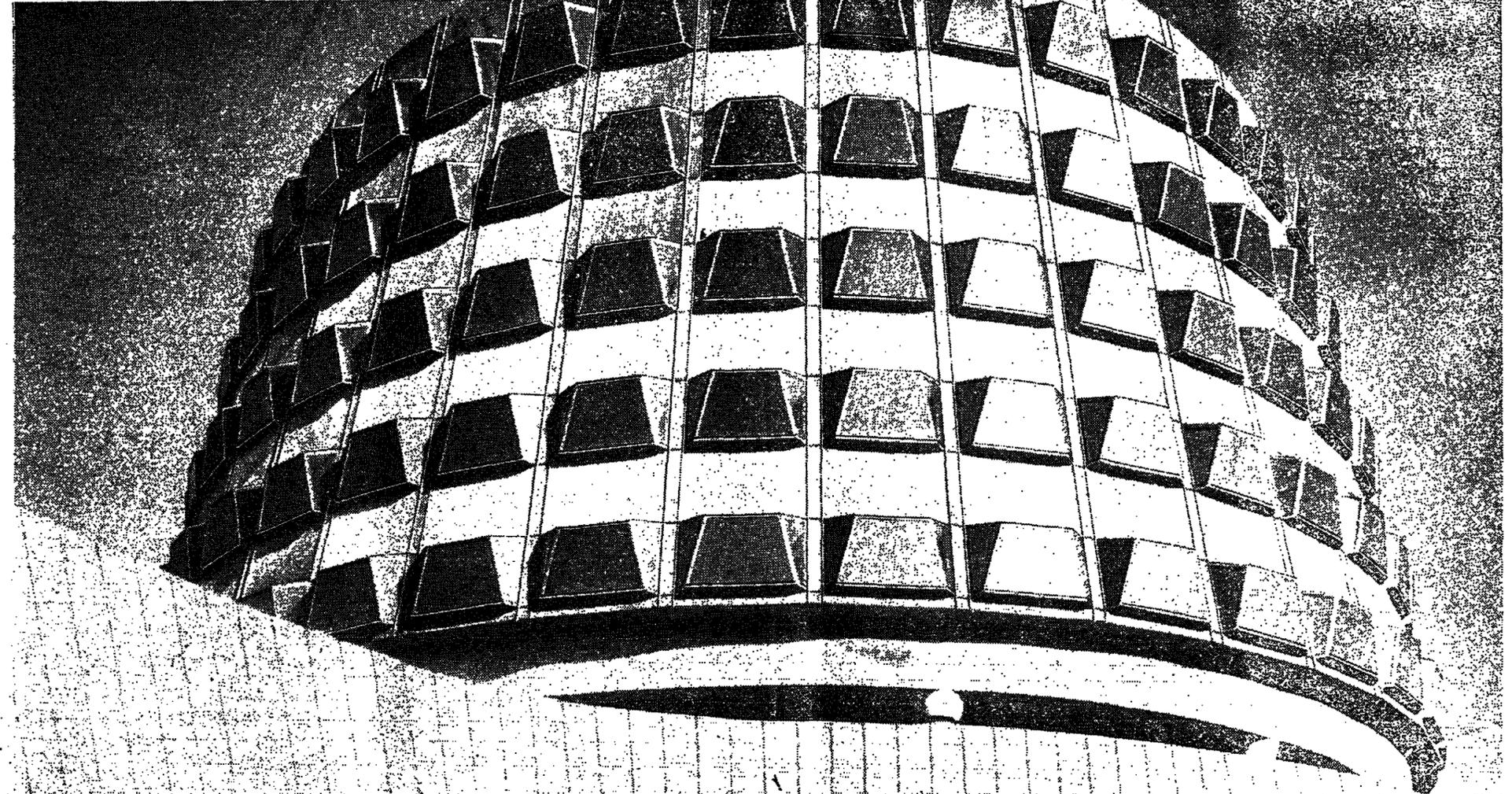
ECGD's current liabilities in Iran, almost all on equity investment, amount to well over £7m, mainly in comparatively small amounts in joint venture companies. Total foreign assets, from all countries, at risk in Iran amount to around £500m.

The spread of investments covers a wide range of industry, and since equity holdings have been restricted to minority shares, individual company losses are not expected to be great in most cases.

One company which would suffer is BL's Leyland Vehicles, which has a 7 per cent share in an Iranian truck company, and a 26 per cent share in a diesel engine concern. At present both are being run by Government officials.

# World Economic Indicators

	RETAIL PRICES				Index base year
	May '79	April '79	March '79	May '78	
UK	215.9	214.2	210.6	195.7	103
U.S.	214.1	217.5	209.1	193.3	104
France	217.4	215.7	213.0	197.4	101
Italy	158.4	148.5	146.1	131.3	14.5
Belgium	132.0	131.7	131.4	127.0	3.9
Holland	124.2	124.9	124.2	120.0	4.1
W. Germany	150.0	149.3	148.2	145.0	3.4
Japan	125.7	124.0	123.0	122.5	2.6
				1974=100	
				1967=100	
				1970=100	
				1975=100	



Architects: Antonio Bonet & Francisco Gonzalez Valdes

# Who built a castle in Spain for their own good health?

The Spanish medical professions are proud of their new headquarters in Madrid. With some justification.

Its unusual 'beehive' shape is a deliberate breakaway from the match-box school of present-day architecture, and the building reflects an exceptional quality and attention to detail.

Britain can share some of this pride,

since it was built by Laing SA, 85% owned by John Laing, this subsidiary is now one of the leading contractors in Spain. Laing's presence in Spain is good news for the burgeoning Spanish economy. It is one of a dozen Laing overseas companies, either wholly or partly owned, which, world-wide, are exporting British technology.

In Britain alone, more than 20,000

people make Laing one of the biggest construction companies in the world. World-wide, you will find the familiar Laing yellow-and-black site boards wherever new ideas are taking shape. Laing's scope ranges from cathedrals to power stations, from docks to hospitals. Laing expertise can embrace the technicalities involved in building Britain's largest brewery, and the craftsmanship

necessary to renovate the interior of the Albert Hall.

Laing make ideas take shape. With skill. With technology. With craftsmanship.

**LAING**  
make ideas take shape

UK NEWS

Chairman of Alfred Herbert will quit

BY MAURICE SAMUELSON

SIR JOHN BUCKLEY will shortly give up the chairmanship of Alfred Herbert, the State-owned toolmakers, which he has held for the past four years.

However, company officials said yesterday that there was no question of Sir John, 66-year-old chairman of Davy International and a director of British Steel, "being pushed."

Although no date is known for his departure, Sir John himself said that he had had "a good stint" at Alfred Herbert and that the company had undergone "some painful reconstruction" over the past three years. It had, he said, "got a lot for its effort."

Speculation about Sir John's future comes against the background of discussions between Sir Keith Joseph's Industry Department and the National Enterprise Board about running of "lame-duck" companies.

Herbert has received an estimated £48m of Government money since it was nationalised in 1975. Last year, it made a loss of £7.4m against a net loss of £342,000 in 1977.

However, the company says there has been "a lot of misunderstanding" about its finances. Mr. Walter Lees, the chief executive, said that none of the State money put into it had been dissipated, except for about £3m covering mainly redundancy payments.

Even if the present Government decided to give no more support, the company was now in a position to generate its own finances out of its stocks and its work in progress, thanks to the confidence of its bankers.

Orders were coming in at a record rate and in the second quarter of the year, were about 50 per cent higher than average. Last year's order book had been 25 per cent up on that for 1977.

Mr. Peter Rippon, who is being mentioned as a possible successor to Sir John, is already a member of Herbert's board. He is managing director and vice-chairman of Lindus Industries and a former managing director of Tube Investments' machine tools division.

Pay growth at 15% forecast by brokers

BY DAVID FREUD

A PAY EXPLOSION is unlikely in the forthcoming wage round, say City stockbrokers Phillips and Drew.

In its latest circular the firm predicts average earnings growth of about 15 per cent, only marginally higher than in the 1978/79 round, and below the expected turn-of-the-year inflation rate.

The firm says there is greater awareness among labour leaders that seeking excessive wage increases is not in the interests of their members' real living standards.

A new government with a sizeable overall majority has much more bargaining power than a minority government facing an election.

The effect of high settlements at the beginning of the round on later private sector deals may be smaller than usual, as demand weakens.

A firm public sector cash limit policy may deter those cash-limited groups from seeking excessive increases in the face of a pay/unemployment trade-off.

In particular, there may be little scope for public sector groups receiving comparability

payments to obtain much else. This is because the comparability recommendation may be in terms of the total rise for the round.

Finally, Phillips and Drew say the tax rebates paid early in the round may have a slight moderating effect on settlements.

Unemployment

The Midland Bank Review, published today, says the main problems facing the Government policy of cutting inflation through monetary and fiscal means, is to ensure enough feed-back onto wages to keep unemployment within tolerable bounds.

Otherwise, the higher unemployment may itself bring the feed-back.

The Government will have to devise ways of influencing the attitudes of trades unions and wage-earners generally, so that negotiators see the adverse effects of excessive settlements on output and employment, and settle so as not to provoke them.

A major effort of education, propaganda and cajolery is likely to be required.

Stockbrokers Laing and Cruickshank say in their latest circular that even if wage settlements in the next round average 18-20 per cent, the combination of a firm pound, lower employment and the absence of this year's shocks suggests the retail price inflation rate will fall from a 19 per cent peak at the beginning of 1980 through the rest of the year.

Firm monetary control has set the economy on the road to recession over the next 18 months, says the firm, while the anti-inflation benefits will be felt largely in 1981.

Stockbrokers J. and A. Scrimgeour expect falls in Minimum Lending Rate from the present 14 per cent in July-September. The reasons are market pressures resulting from the attractiveness of sterling investment at a time of oil price increases, and possible falls in U.S. rates.

MLR is then forecast to increase again, because bank lending should still be growing strongly.

Independent business forecasters Staniland Hall Associates predict that consumer spending on durables will fall 5 per cent next year. Car sales could be 10 per cent down.

British Airways changes soon

BY LYNTON McLAINE

BRITISH AIRWAYS is expected to announce at least two senior Board appointments this week to complete the reshuffle started when Sir Frank McDermott resigned as chairman last month.

The State-owned airline has been without engineering, planning and finance directors since June 1.

Mr. Roy Watts, former planning and finance director, took over as chief executive after Mr. Ross Stainton left the post to become chairman of the corporation.

One of the first tasks of the new finance director will be to assess the impact of the rising value of sterling on the airline's foreign earnings.

These accounted for over 57 per cent of the revenue of £1,365m in the financial year to the end of March. The U.S. and Canada accounted for 14.6 per cent of total revenue last year and this is now causing particular concern among members of the Board as the pound has risen in value by 8.3 per cent against the U.S. dollar since December 31.

When Sir Frank resigned after three-and-a-half years as chairman he had 18 months of his period of office to run.

There was speculation last month that his experience as an oil economist—he was the chairman of Shell Transport and Trading before joining BA—and the fact that he was a fervent supporter of free enterprise might favour him for a job with Mrs. Margaret Thatcher's Government.

However, he has so far kept quiet about his plans.

Mr. Kenneth Wilkinson, the former engineering director, is deputy chairman. His engineering work may be taken over by Mr. John Garton, the present deputy chief engineer.

Planning and finance responsibilities, both previously held by Mr. Watts, may now be split.

This would take account of the rising commercial workload British Airways has taken upon itself to meet the demands of air travel into the 1980s.

The airline plans to double to over 30m by 1986 the number of passengers it carries.

It also plans to double the 200,000 tons of cargo it carried last year, and aims to achieve these targets with fewer staff.

The plan for the mid-1980s includes loss of 2,000 jobs of the 57,000 in the corporation.

These changes were planned before the latest round of fuel price rises, and the airline is understood to have revised its expectations of growth in the 1980s, but on the assumption that passenger numbers will continue to rise by at least 10 per cent a year.

Dearer fuel cuts demand for big second-hand cars

BY LISA WOOD

Assuming the Jackson-Vanik DEMAND FOR large, first-thirty used cars has fallen because of the big fuel price rises, but dealers are confident that this decline is temporary.

They predicted yesterday that the situation would be similar to 1974 when petrol price increases caused a sharp drop in used car sales but the market rapidly recovered.

The dealers do not report any drop in new car sales for the more expensive luxury car, particularly imports, for which there are waiting lists of up to two years.

But there has been a fall in demand for the used, larger family car such as the BL Princess, Austin Maxi and Rover, as well as older Daimler, Rolls-Royce, Mercedes-Benz and Jaguar cars.

The publishers of Glass's Guide, a confidential dealers' guide to used car values, said yesterday: "On quite a large number of the bigger used cars there has been a slowing up on sales, coupled with a fall in values."

This turn in the market comes at a time when dealers are eager to sell their used stock in readiness for the large number of trade-in vehicles in August when the new registration suffix appears.

Mr. Dennis Dixon, of Lakefield Motors, Kendal, said: "There has been a setback in second-hand sales but it is temporary. The situation is rather like that experienced by cigarette smokers when cigarettes go up in price. Smokers swear they will give it up, but after six weeks they have forgotten about the increased price."

Mr. John Burston, sales manager of Maslen Motors, London, said the public was frightened of the petrol consumption of the larger used

car, many of which traditionally were regarded by dealers as "money in the bank cars," such as Daimlers, Jaguars and older Rolls-Royces. The same happened in 1974, he said, and the market recovered.

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Mr. John Burston, sales manager of Maslen Motors, London, said the public was frightened of the petrol consumption of the larger used

are becoming more difficult to shift. He claimed, however, that used car values had not dropped as a new Mercedes, for example, had gone up in price by about 10 per cent in the last month with the Value-Added Tax increase and a 2 per cent increase by the manufacturer. He was offering free petrol to assure customers that he was confident that the larger car did not consume an excessive amount of petrol.

The fall in demand has not, however, hit the newer used Mercedes-Benz. In the UK, the firm expects to wait up to two years for delivery of a new Mercedes and therefore a used car, up to one year old, is an attractive alternative for buyers who have had.

As far as new car sales are concerned, manufacturers are reluctant to produce any more of the larger car. But car makers' factories, including BL, reported very good sales in June for their smaller cars.

BL's sales of the Mini in June were about 150 per cent up on the same month last year, and up by 170 per cent for the Allegro during the same period.

Volvo has record sales

MORE THAN 20,355 Volvo cars were registered in the first six months of 1979, making it the company's best half-year in Britain, Volvo Concessionaires said yesterday.

The sales are a 41 per cent increase over the 1978 first half, a period when the total market expanded by 19 per cent.

According to Volvo Concessionaires, the 20,355 registrations accounted for 14,990 of the sales, a 27 per cent increase on the same period last year, while the 343 range totalled 5,344, an increase of 251 per cent.

Dr. James Maxmin, chief executive of Volvo Concessionaires, said the sales performance of the Volvo 200 series had been outstanding, while the new 343 range had surpassed all expectations.

He attributed the latest success to products were well adapted to the needs of the market and backed by an efficient dealer network.

"With their continued support we will achieve our new target of 37,000 registrations for the year," he added.

International Computers sued for £2½m

By Max Wilkinson

INTERNATIONAL Computers Limited (ICL) is being sued for £2.5m by Telecomputing, a programming company from which it had taken a licence a few years ago.

Telecomputing has filed a suit for breach of contract relating to a teleprocessing system which it developed for ICL machines.

International Computers took a licence from Telecomputing to market the software, which allows many terminals to be connected simultaneously to the same computer. However, ICL subsequently developed its own software for the purpose and ended the agreement with Telecomputing.

British 'hard-hearted' towards the poor

BY PAUL TAYLOR

PEOPLE in Britain are more "hard-hearted" towards the poor man than European neighbours, the Child Poverty Action Group claims today in launching a campaign to "bring home to the public the plight of Britain's forgotten poor."

The organisation cites the results of an EEC survey on people's attitudes towards the poor. It showed that only a third of those questioned in Britain thought there were poor in the UK.

Forty-three per cent of the Britons questioned thought the cause of poverty was laziness or lack of will power, compared to 25 per cent of those asked the same question in the EEC as a whole. Twenty per cent in

Britain thought the Government was doing too much to help the poor, compared to 7 per cent in the EEC as a whole.

In an attempt to change the views of people in Britain about poverty the Child Poverty Action Group is publishing a series of leaflets. One, called Poverty and Inequality: The Facts, suggests that in 1976 there were almost 15m people in Britain living in or around the margins of poverty.

The action group argues that a coherent strategy to fight poverty—and the political will to carry it out—is urgently needed. Unless there is a clear demand for better child benefits and social security benefits, the needs of the poor will continue to be overlooked.

Rising workload

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These changes were planned before the latest round of fuel price rises, and the airline is understood to have revised its expectations of growth in the 1980s, but on the assumption that passenger numbers will continue to rise by at least 10 per cent a year.

Whale oil imports may be banned

By Our Consumer Affairs Correspondent

LEATHER GOODS makers may face a Government ban on the use of sperm whale oil for softening leather.

The possible ban on imports of sperm whale oil—worth over £1.5m—follows widespread concern over the future of the species.

About 1,000 whales are needed to supply Britain's leather industry with sperm oil, according to environmental groups concerned at the decline in whale numbers.

The possible banning of the sperm oil could be announced in the next few days or even at today's meeting of the International Whaling Commission. Already, New Zealand and the U.S. have banned the oil.

A rally and demonstration against the killing of whales was held in London's Trafalgar Square yesterday, with Sir Peter Scott and Spike Milligan among the speakers.

Philips Data Systems wins Halifax order

Financial Times Reporter

PHILIPS Data Systems has won a contract worth more than £10m to supply the Halifax Building Society with a new generation of terminals for over 400 UK branch offices.

The order, for Philips PTS 6000 financial terminal system, is one of the largest single orders for computer equipment of this type.

According to the Halifax, the move to cashier automation will improve customer services and improve the detail and speed of branch reporting to management.

The system will replace a back office terminal system installed in 1971. The order includes provision for equipping a substantial number of future new offices.

UK CAR REGISTRATIONS

Table with columns for Year, Total UK produced, Total imported, Total market, and various car models like Ford, BL, PSA, etc.

\* Includes cars from companies' Continental associates which are not included in the total UK figures. † Includes imports from all sources, including cars from Continental associates of UK companies. Source: Society of Motor Manufacturers and Traders

County faces 30% rate rise

DERBYSHIRE faces rate increases of about 30 per cent next year if it does not reduce spending, County Council leader Mr. Walter Marshall has warned.

Fitness for All week in the City

THE CITY OF London's Fitness for All Week started today. Events include daily lunchtime keep fit sessions in front of the Guildhall. An exhibition is being held in the Old Library at the Guildhall. As part of its contribution, the Corporation of London Health Department is launching a 'What's Wrong?' competition, in which visitors are invited to spot hazards and dangerous practices which could cause office accidents. Prizes are offered for the best three entries.

EDGAR ALLEN, BALFOUR HAS A STRONG INDEPENDENT FUTURE

Aurora is attempting to buy EAB at the low point of its fortunes and before the full benefits of its reorganisation and investment in plant and technology, particularly in the special steels business, can come through.

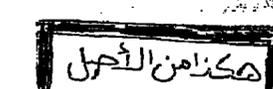
Even at this early stage in the current financial year ending 29th March, 1980, the EAB Board is prepared to forecast profits before tax of not less than £1.5 million and on this basis to recommend ordinary dividends of 2p net per share.

After 6 months of its current financial year Aurora has given no profit forecast. Aurora's cash offer of approximately £13.8 million is worth only about 60 per cent of EAB's net asset value of £22.7 million.

EAB is convinced that Aurora's commercial logic is misconceived and the bid, if successful, would result in increased import penetration of the U.K. market for high speed steel.

The Board of EAB believes that the Aurora offer is inadequate and misconceived. EAB SHAREHOLDERS ARE STRONGLY RECOMMENDED TO REJECT THE AURORA BID AND KEEP EAB INDEPENDENT.

The Directors of Edgar Allen, Balfour Limited have taken all reasonable care to ensure that the facts stated and the opinions expressed herein are fair and accurate and jointly and severally accept responsibility accordingly.



INTER-AMERICAN DEVELOPMENT BANK Washington, D.C. DM 50,000,000 8% Deutsche Mark Bonds of 1979/1989 Private Placement DG BANK Deutsche Genossenschaftsbank Berliner Handels- und Frankfurter Bank Deutsche Girozentrale - Deutsche Kommunalbank - July 1979

From The Banker Research Unit - Four Completely Revised Titles for 1979 Who Owns What in World Banking-8th Edition Banking in the United States-2nd Edition Who is Where in World Banking-8th Edition Offshore Investment Centres-3rd Edition For further details and order form please write to: The Banker Research Unit, Greystoke Place, Fetter Lane, London EC4A 1ND

شركة الامارات

# Petrol prices rocketing. £1.40 next week?

Right now you could be excused for thinking that the last thing the world needs is a new luxury car.

In which case, we invite you to examine the new Princess 1700HLS and 2000HLS.

They're every inch luxurious, from their sumptuous velour upholstery, rear passenger reading lights and twin-speaker radio, to their smooth, powerful 'O' Series engines and equally smooth Hydragas® suspension.

Yet they're surprisingly inexpensive to run. In urban driving, the Princess 2000HLS with manual gearbox achieves over 27 mpg - which means it's the most economical 2 litre saloon car in town.

At a constant 56 mph you can cover nearly 38 miles on every precious gallon.

And the figures for the new Princess 1700HLS are even better. Not that the new Princesses are only frugal with fuel. They cost less to run than many cars, even before you start to run them.

Inexpensive spare parts mean low insurance premiums. And if your company provides you with a Princess 1700HLS, you'll find that it falls conveniently below the critical 1800cc break point for taxable benefits, thus incurring no more tax liability than a 1600cc car.

How can we sum up the new Princess 1700HLS and 2000HLS? Are they luxurious cars that are economical to run - or economical cars offering an unusual degree of luxury?

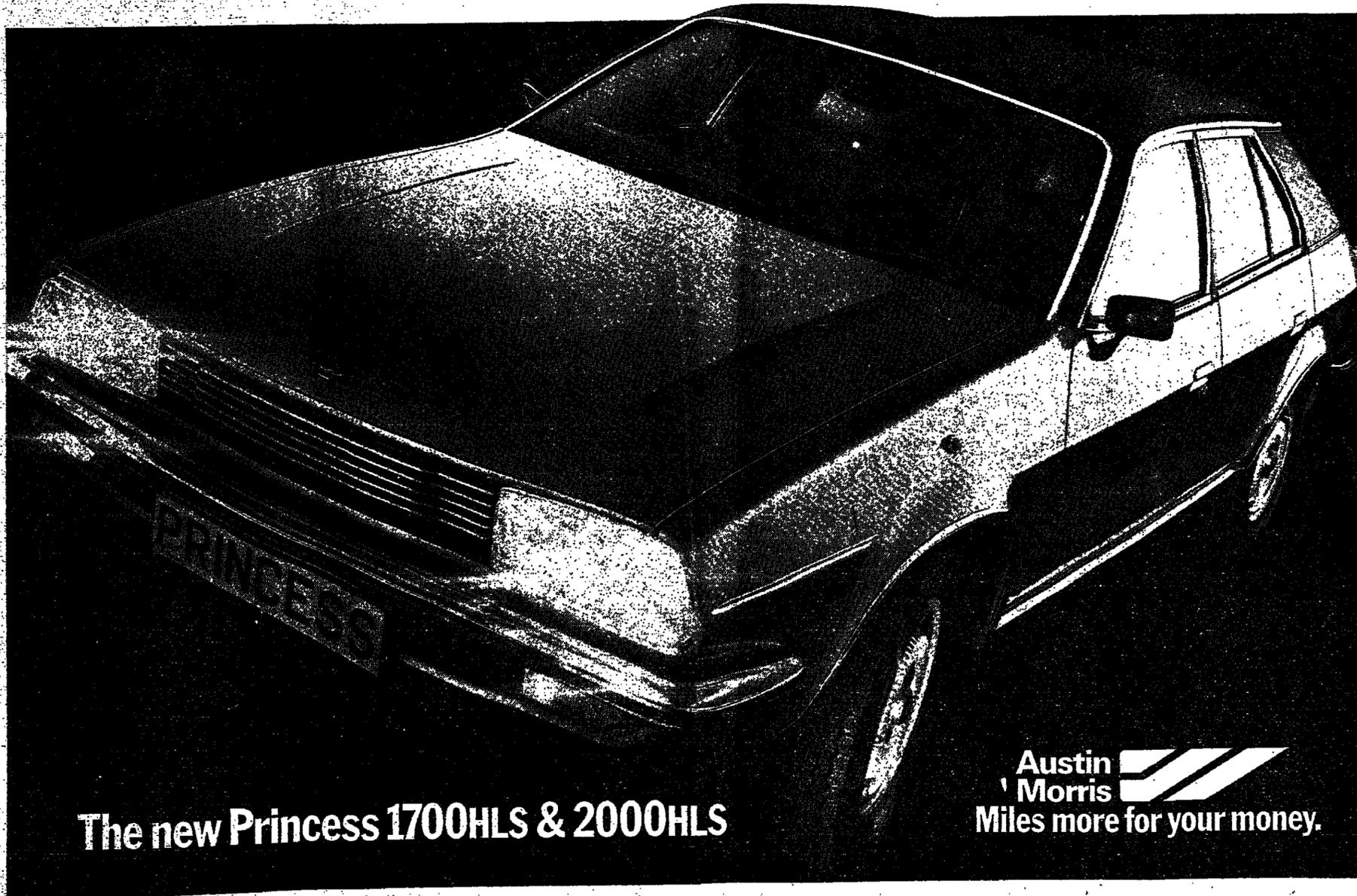
Either way, isn't it nice to know that you can still arrive in the style to which you're accustomed - without feeling guilty?

Official Department of Energy MPG Figures			
Manual gearbox	Imperial MPG		
	Urban	56mph	75mph
Princess 1700HLS	29.7	58.2	28.4
Princess 2000HLS	27.2	57.7	27.7

Metric equivalents: L/100km. Princess 1700HLS: Urban: 9.5; 90km/h: 7.4; 120km/h: 6.9. Princess 2000HLS: Urban: 10.4; 90km/h: 7.5; 120km/h: 10.2.

©Hydragas is a registered trademark.

# There's never been a better time to launch this luxury car.



The new Princess 1700HLS & 2000HLS

Austin Morris Miles more for your money.

LABOUR

Civil Service technicians resume strikes today

BY PHILIP BASSETT, LABOUR STAFF

CIVIL SERVICE technicians and technicians begin further selective strikes today over pay claims aimed at disrupting power supplies to Service establishments...

had seen how many staff obeyed the strike instructions. If all the communications centre staff came out, though, maintaining operations could be 'awkward'...

UK NEWS

Transport Bill likely to boost competition

BY IAN HARGREAVES, TRANSPORT CORRESPONDENT

MOVES TO sell shares in the National Freight Corporation, give bus operators more competition and tighten 'drink-and-drive' laws will be brought together in a transport Bill...

items in his Ministerial in-tray. These include proposals for a rail-only Channel Tunnel and mass electrification of the railways...

shares. NFC made a net profit of £800,000, its first surplus since 1973. On public transport, Mr. Fowler is keen to alter the route licensing system to make it easier for private-sector carriers to launch bus services...

Rockwell streamlines marketing

By Robert Gibbins in Montreal

ROCKWELL UK, a subsidiary of the U.S. conglomerate, Rockwell International, is to set up a marketing operation which it is claimed, will bring down prices of the company's range of power tools...

New effort to exploit abandoned Scots well

BY RAY PERMAN, SCOTTISH CORRESPONDENT

A SMALL British oil company is to make a fresh attempt to find and produce oil from an area near Edinburgh—which was last exploited 15 years ago...

onshore prospecting increasingly attractive. Although oil reservoirs in Britain are likely to be very small compared to those under the North Sea, the cost of exploration and production is a fraction of that offshore...

Steel jobs go after £7m modernisation

By Ray Perman, Scottish Correspondent

THE SEVERITY of the crisis facing British Steel has been underlined by a decision to cut the workforce at one of the corporation's most modern plants by a quarter...

Another teachers' union gives warning on cuts

THE GOVERNMENT has been given another warning by a teacher union about the effects on schools of its proposed economy measures...

teachers be placed under an impossible strain, but the educational prospects of the children will be under serious threat...

Ex-bank chief leaves £45,757

SIR GEORGE RENDEL, former chairman of merchant-bankers Singer and Friedlander, and Ambassador to Belgium 1947-50, who died in May aged 90, left £45,757 gross (£41,421 net) in his will published on Saturday...

Hose pipe ban

THE ANGLIAN Water Authority is to introduce a hose pipe ban in East Suffolk from tomorrow.

GEC strikers stay out

THE 1,300 hourly-paid men of the English Electric (GEC) light engineering works in Liverpool say they are prepared to stay out until the factory closes for the summer holiday in a fortnight...

day night after unanimously rejecting a management offer of £.3 per cent, with fringe benefits...

Air services centralisation is criticised

By Robin Reeves, Welsh Correspondent

THE CIVIL Aviation Authority was criticised at the weekend for seeking to centralise air traffic into fewer airports, instead of encouraging the growth of feeder networks from modest airfields around the country...

Heating cuts

STAFFORDSHIRE County Council, notified by suppliers of 20 per cent cuts in fuel deliveries, are to switch off boilers in schools at 2.30 p.m. Swimming pools will not be heated. The county has 170 oil-burning establishments.

MOTOR CARS

WADHAM STRINGER

ROLLS-ROYCE

Official Distributors for Rolls-Royce and Bentley.

- H.A. FOX 34 Dover Street, London, Tel. 01-499 8982. 1978 June Rolls-Royce Silver Shadow II Saloon. Chestnut, Magnolia leather. Speedometer reading 1,350 miles...

- GUILDFORD Woodbridge Road, Guildford, Surrey, Tel. 69231. Tlx. 859255. 1979 Jan. Rolls-Royce Silver Shadow II finished in Chestnut with Beige hide interior. 500 miles...

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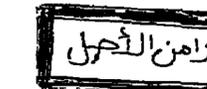
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# Technical Page

EDITED BY ARTHUR DENNETT AND TED SCROETERS

## METALWORKING

### New range of milling and boring machines

NEW MILLING and boring machines by Ingersoll Rand are available in three sizes with 15, 20 and 25 hp main spindle drives.

These machines have been designed to be used in a wide variety of applications. They are marketed in the UK by RK International Machine Tools of Erith, Kent.

All machines have the same layout that is, bed with X axis travel, column with vertical Y axis travel and a saddle on the column for Z axis. The smallest version, the MBM 15, has 1,250 mm of longitudinal travel. This increases to 1,500 mm on the MBM 20 and 2,000 mm on the MBM 25. The corresponding figures for Z axis are 700, 800 and 900 mm.

## COMPONENTS

### Devised for danger zones

A DIAPHRAGM-operated air pressure receiver switch, has been devised by Delta Controls for use in pneumatic control systems in hazardous areas at Sterling Organics' Dudley, Northumberland plant.

It has been called the Type 262 and has a range of 0.2-1.0 Bar. It was designed to Sterling Organics' specification for use as an interlocking device between normal process control signals at 3-15 psi to direct switch power to the systems operating at 80 psi.

Sterling Organics has about three dozen of the Delta switches working with the extensive pneumatic instrumentation and process control equipment throughout the plant, which produces fine organic chemicals. The device has an adjustable

overarm to carry labour support. All axes can be fitted with recirculating ball screws and dc feed motors which provide infinitely variable feed rates in the range 10 to 2,000 mm/min. Rapid traverse rate is 3,000 mm/min.

This feed system makes the machines particularly suited to the turning of additional control systems such as electronic copying or numerical control.

When the Philips 6683 CNC system is fitted, all the controls are incorporated into a special pendant which includes a keyboard for editing and manual data input.

Accessories available with all the MBM series include double spindle head (one horizontal, one vertical), universal swivel head, power draw bar and hydraulic clamping on all axes.

RK International, Europa Trading Estate, Fraser Road, Erith, Kent, Erith SE7 6LL.

## AUTOMATION

### Simplified control of multiple lifts

NOTHING IS more frustrating than to stand waiting for one of several lifts at a landing only to find that like the legendary No. 11 buses in London, they are moving in convoy and happen to be as far away from one as they can get.

But lift systems can be and are tailored to meet conditions of "people traffic" in the buildings in which they are installed. The snag is that with the traditional electrical relay controllers, any change in occupancy, or even a staff redistribution can entail a lengthy redesign of the controllers and protracted sessions by the lift engineers with festoons of wiring.

The criterion for successful control of a lift system is average waiting time, which is a quite complex value to determine since if a computer is used to check the older installation, several hundred connections must be made to existing control wires before any meaningful measurements can take place.

Once the pattern of operations has been captured, however, it is a matter for the analytical specialists using graphical techniques to compress a mass of detail into easily read diagrams.

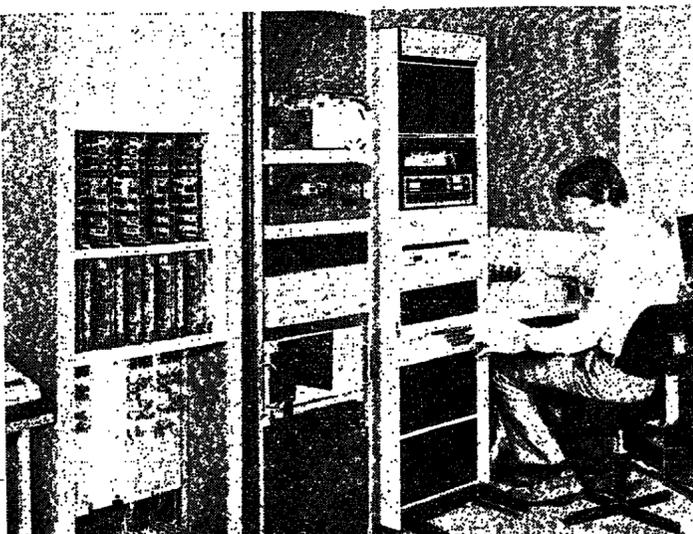
At Express Lift Company in Northampton, work like this, carried out over the past four to five years, has enabled the company to make a major advance in control techniques, both in the area of controller

design and in the way a control system is specified.

The designers and the company management are not claiming a breakthrough, but they are quietly confident that the way in which they have used microelectronics to standardise control board design and make alterations to control programmes simple, even for the most complex and fastest of lift systems, gives them a lead of between 12 and 18 months over any opposition.

All a lift engineer has to do when a programme changes is to replace the memory device holding the earlier programme with a reprogrammed unit. All he has to do if a fault develops on a board is to slide in a new one—and the experimental units which have been under test for a considerable time are showing reliabilities of a very high order.

One extremely important consequence of this approach is that tailoring a lift system to a given building is no longer a protracted manufacturing procedure. The lift engineers specify the controller as they did before in "lift language" and the computer specialists turn this directly into a control programme. But the installation to suit this building, or the one next door will be identical, except for a tiny component which will have the programme "burned" into it, and the number of control cards which corresponds to the number of lifts. It is a simple matter to stop



Multiple lifts from "hunting" or to instruct them to return to landings with the heaviest traffic, etc. etc.

The Express Traffic Processor control system as it now stands is capable of providing fully automatic optimised control for up to eight interconnected lifts of the medium-speed geared or high-speed gearless types. Complete control equipment for the eight lifts goes into a single cabinet taking up, say, one-tenth of the floor space needed by the relay-based equivalent.

With it, diagnostics, or traffic pattern analysis, by a control computer become simply a matter of plugging in one

connection and there is no reason why this should not be done between Northampton and any site over a telephone link.

This is a first major step towards a complete streamlining of lift control systems. A further one is likely to be in the control of the motors themselves.

Express is a member of the GEC group and GEC's Hirst Research Centre co-operated in the development of the special language used quickly to modify control operations.

Express Lift Company, Abbey Works, Weedon Road, Northampton NN5 5BT. 0604 51221.

The new, compact controller is in the cabinet on the left. It is a four-lift unit with, on its right, the process control machine which is monitoring its reactions to simulated building traffic. Next to this is the scientific machine which is used to manipulate programmes to suit demand patterns. This centre at Northampton could be used to test, remotely, installations in the UK, using an appropriately switched telephone line as the link. It would, in fact, be possible to take control of a lift system from this laboratory.

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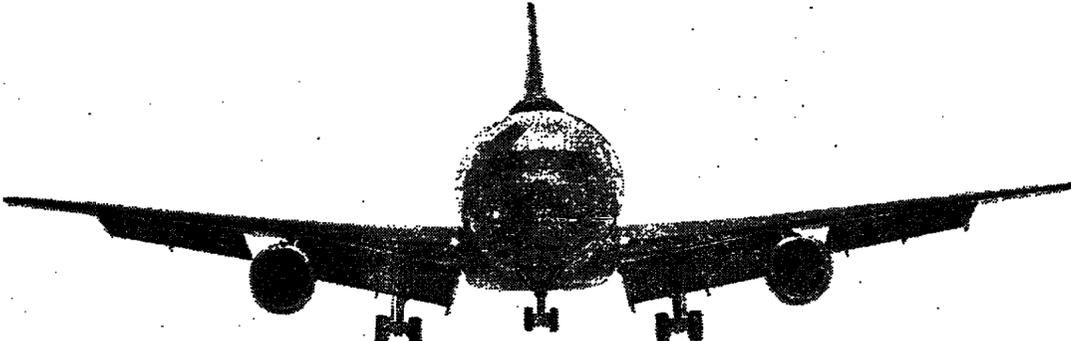
## RESEARCH

### Study of energy use at school

IN ORDER to assess the value of its energy-conserving design, a new school to be built in Walmley—the Church of England's Sutton Coldfield Deansy First and Middle Schools—will be monitored for four years by the Birmingham School of Architecture, which is responsible for the research in co-operation with the Diocesan Education Council, Education Dept., Architect's Dept., and West Midlands Gas Board.

Architects have tried to embody some of the best aspects of both open and closed planning of different areas in accordance with current educational thinking, and their prime aim has been to achieve a small-scale character which will not overawe the children.

Design of the project is by Birmingham architect, John P. Osborne and Son, and it is to be built by Turritt Construction under a contract valued at about £650,000.



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## INSTRUMENTS

### Laser has many roles

CARBON DIOXIDE lasers and accessories, the CM Series, are being introduced to meet the emerging needs of systems designers in this field.

First product in this Ferranti range is the Type CM1000 21 Watt waveguide unit.

Waveguide lasers offer distinct advantages over their conventional counterparts with compact rugged construction, giving a highly stable continuous wave output, a long operational life before refill of typically 300 hours.

Available with an optional cavity length transducer capable of tuning the laser frequency through one complete

spectral range, the Ferranti CM1000 waveguide laser has a choice of two power supply units. One is a standard rack mounting with a cooler, and the other a compact ruggedised modular unit constructed to full military specifications.

Applications for the CM1000 laser are varied, with uses in such military and civil fields as rangefinding, communications, velocimetry, infra-red beacons and scanners, welding and drilling of plastics, spectroscopy, general laboratory use, engraving wood and plastics, fusing of optical fibres, and laser surgery.

Ferranti, Dunsinane Avenue, Dundee DD2 3PN. 0382 8939.

## SERVICES

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SERVICE for international traders and brokers launched by CMG Computer Management Group is expected to be used by many groups dealing in a variety of commodities.

Developed by CMG Southern in Croydon, the INTRACT service will enable traders more accurately and rapidly to monitor contract commitments and to provide all the associated accounting requirements.

INTRACT (International Trading and Accounting System) has visual display terminals in the traders' offices to give immediate access to accurate and up-to-date information on all outstanding commitments.

Each trading company using the service will have its own confidential file set up on the computer systems which run on twin Burroughs 3380 computers at CMG's Croydon data centre.

INTRACT will enable immediate entry of information on contracts, shippers, buyers and suppliers covering details such as trade accounts, bills of exchange, invoices, credit and debit notes etc. Instant inquiries can be made concerning a contract, commitments to buyers and suppliers and contract expiry dates.

Other information immediately available includes the state of trading accounts and the total sterling value of contracts in order that credit limits set by Export Guarantee Departments are not exceeded.

A range of other reports and analyses can be produced by INTRACT including: day books, sales statements, remittance advice, commitment lists showing debtors and creditors, VAT analysis, nominal ledger, trading analysis, and stock accounting.

C. M. G. Southern, Sunley House, Bedford Park, Croydon, CR0 2AP. 01-636 8281.

## PROCESSING

### Makes connection easier

CONNECTING solid aluminium cables into terminal boxes and other confined spaces has been simplified following the introduction of equipment which forms terminal ends by Mercia Engineering, one of the Redman Heenan International group of companies.

Although such cables have been in use for a number of years, difficulties are still being experienced in manipulating them into, and subsequently connecting them up within the limited space available in terminal boxes originally designed for copper cables.

With the Mercia system, which was developed with the Central Electricity Research Laboratories, the terminal ends of the cables are first flattened to controlled thickness and then pierced to accept the clamp bolt in a hand-held hydraulically-operated press.

Cables, as a consequence, can be bolted directly into terminal boxes without recourse to crimped-on lugs; the method used hitherto and one that, due to the length and stiffness of the lugs, adds to the difficulties of making connections.

This new technique has been fully approved both electrically and mechanically by CEGB

which is now using the system on current power-station contracts.

Mercia Engineering Co., West Avenue, Wigston, Leicester, LE18 2FG. Leicester (0533) 881404.

### Pumps for food industry

DESIGNED TO operate at low speeds to ensure gentle handling of liquids with a minimum of shear is the Fristam FK range of rotary positive pumps, introduced to the UK by Alpha Technical Services, Altec House, Bridge Close, Harrow, Middx. (01-422 3400).

Pumps are made of high grade stainless steel with nickel alloy rotors and are capable of handling high viscosity fluids with smooth flow and precise accuracy.

Capacities are to 50,000 litres per hour. Range is said to be of hygienic quick-disassembling design and can be sealed to suit most applications in the food, dairy, toiletry and chemical industries.



Tax system at fault, say Wilson critics

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Max Wilkinson on a U.S. electronics group with an unusual talent for survival in markets where others have failed Commodore calculates the risks of living dangerously

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Commodore's PET personal computer in operation

different parts of the U.S., each working on a different product. Many of these groups are based in universities and work under contract for Commodore.

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Shake-out Commodore was one of the first companies into the booming market for hand held calculators and later digital watches.

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THE ARTS

Covent Garden

Idomeneo by MAX LOPERT

Idomeneo, the most recent of the Mozart operas to enter the Covent Garden repertoire, was revived on Friday evening. The performance was one of the bleakest of a generally hapless season.



Janet Baker Leonard Burt

On the other hand, I (who did not see the production last year when it was first shown) find it hard to believe that anyone with the degree of discipline and involvement unknown to Friday's performance, it could be anything other than a monstrous perversion of Mozart's opera seria.

Instinctive man of the theatre, and was conducting the production rather than the opera. The uncertainty of style spread to even so distinguished an artist as Janet Baker, whose Idomeneo moves between eloquence and mannerism.

prompter) are repeated from last season; a new element, and almost the only consistently gratifying feature of the performance, is the Electra of the underrated singer Elizabeth Vaughan.

Purcell Room

Lysis by ANDREW CLEMENTS

Lysis is a small group of young musicians specialising in contemporary music. Personnel are tailored to suit the programmes, but the constants are the bassist and pianist, Roger Dean, the percussionist, Ashley Brown, and the violinist Hazel Smith.

crudely constructed and congested with incident. Michael Finnissy's *De Tého* is a minor work in his prolific output, a neat little study in ritual patterns for solo percussionist, mostly fingertip pattering interrupted by the occasional hard-struck tom-tom and long, echoing silence.

as well as the *Rite of Spring* and jagged motoric writing. Elsewhere the group provided sturdy, acceptable performances, witty in Hindemith's *Three Pieces*, confident in Kenak's *Morsima-Amorsima*.

At the moment, their very enthusiasm leads them astray in their programme. Purcell Room recital used eight members of Lysis in works by Hindemith, Ives, Stockhausen, and Kenak, and four new pieces, as well as cramming in two group improvisations.

More substance, however, in John Wallace's *Variation* for bass clarinet, trumpet, violin, double bass, piano and percussion. It begins and ends well, falls away in its central section, yet creates the sense of a quite positive musical personality.

Perhaps future Lysis concerts will show less concern with displaying the full range of its scope and more attention to balance. A programme devoted to improvisation, for instance, would be bold and fascinating—the two examples included here were too brief to show how well the group could work together and whether any elaborate structural plans could be explored and sustained.

Festival Hall

Berlioz by ANDREW CLEMENTS

Fewer works, more chance to relax, and perhaps the unfamiliar pieces, might have created a stronger impression. As it was, Theo Loevehdie's *Music for Contrabass and Piano*, a mixture of graphic and exact notation, came across as no more than a catalogue of the sound resources of the contemporary double bass, with Dean (accompanied by Erik Levi) as a virtuoso guide, often

Thursday's concert by the Royal Philharmonic Orchestra was the fifth of what it calls its "Dorati Series"; six concerts in all, each devoted to a single composer, a celebration designed for the orchestra's new conductor Laureate. Berlioz is not, however, a composer I had previously associated with Antal Dorati, and indeed, the programme did not suggest a Berlioz specialist. *Les Nuits*

lines enough to quicken it into life; even Dorati's architectonic bent balked at making much sense of its fits and starts.

myriad felicities of Berlioz's orchestration. A leaden accompaniment with surely too large an orchestra—does this work really need eight cellos and six basses?—made the total effect only ponderous.

WIMBLEDON BY JOHN BARRETT

Historic—but not a vintage year

IF WIMBLEDON '79 will not generally be remembered as a vintage year, there were two historic achievements—one from Sweden's 23-year-old, Bjorn Borg, and the other from the Grand Old Lady of American Tennis, 35-year-old Billie Jean King—that will be discussed and cherished as long as the game is played.

Five-set finals themselves are rare enough; this was only the eighth in the 34 championships held since 1946. Finals that sustain the suspense over the entire span are rarer still. All who saw it will be grateful to have been there.

Miss Navratilova's second title, at the age of 22, revealed a new maturity that will keep her at the top of the world game for as long as she cares to reign.

decision not to admit more than 30,000 spectators at any time, overall attendance, 848,044, exceeded the 1975 record by 5,453.

Borg's feat in winning a fourth successive singles title was not only unique in modern times (never achieved since the challenge round was abolished in 1922), but also had an epic quality about it that made his gruelling five-set final with the brave American left-hander Roscoe Tanner, one of the most dramatic I have ever seen.

It is tantamount to eliminate the few blemishes, mainly of a lack in flexibility, that remain in his much-improved game, he could soon win Wimbledon.

Historians will have noted the first Wimbledon title for John McEnroe. The 20-year-old American left-hander won the men's doubles on Friday with his regular partner, Peter Fleming.

Otherwise unscrupulous players will exploit the situation. Also, umpires must not be afraid to utilise the penalty-point provision.

The see-saw nature of his 6-7, 6-1, 3-6, 6-3, 6-4 victory that spanned 2 hours and 49 minutes of breathless suspense roused the emotions round the packed Centre Court. The nagging uncertainty about Borg's ability to contain the fierce serving and driving of the American was the quality which provided the suspense. When, finally, after being thwarted on three match-points, he won his fourth and sank to his knees, hands clasped in a strange prayer, the 15,000-strong choir cheered him with an intensity usually reserved for native heroes.

Mrs. King's capture at last of that elusive 20th Wimbledon title, will surely remain forever unbeaten. With world standards rising so fast I cannot imagine a player of either sex ever achieving as much again. The death of Elizabeth Ryan, who was visiting Wimbledon on the eve of Mrs. King's achievement would have been an exaggeration if any novelist had devised such a plot. But somehow Wimbledon produces situations like this—both Suzanne Lenglen and Maureen Connolly died during the championships, the first in 1933, and second in 1969.

Wimbledon's popularity continues to grow. Despite the

Although a stiff cross-wind prevented any records, the British crew's time of 6 min 35 sec for the 1m 550 yds course was very fast. Yale, who are the Eastern U.S. champions over 2,000 metres, led briefly after the start, but the well-

HENLEY BY MICHAEL DONNE

British crew's grand win over Yale

THE BRITISH national crew, drilled British crew soon slipped into top gear and by the end of Temple Island they were ahead.

The gap progressively widened, until at the finish they were ahead by 23 lengths. Yale had some consolation, however, in that their second crew convincingly won the Ladies Challenge Plate, beating Downing College, Cambridge.

CRICKET BY TREVOR BAILEY

Two counties can break their duck

Two counties can break their duck

IT IS becoming increasingly probable that 1979 will turn out to be the year of the "never had". There are now only two first-class clubs who have yet to win a major honour, Essex and Somerset and it is likely both will break their duck this summer.

The 17 counties and achieved this unofficial distinction by "doing the double".

Essex and Somerset have been close to success in recent years. Essex were literally within a decimal point of winning the John Player League, while Somerset, having defeated Essex in a marvellously close Gillette semi-final last year, were robbed of the John Player League by just losing to Essex in the last match.

powerful, attacking opener and is in the process of establishing himself as an England regular. McEwan is a destructive stroke maker who would be playing automatically in Tests, if he had not been a South African.

Although it is far too early for their supporters to celebrate, they could well afford to put some champagne on ice. In addition, one of them could become the best team among

In the past it was an altogether different story, as only the County Championship was at stake and there were usually a few great teams around—like Surrey in the 1950s with four genuine international bowlers in the era of sporting pitches, or the Yorkshire of the 1930s.

The main reason why these two sides are doing so well is that they possess that vital balance, a batting line-up with class and depth, a varied attack, team spirit, and a few players of exceptional ability plus several good ones fighting for places.

These are some of the men mainly responsible for Essex having established such a commanding lead in the Schweppes Championship that they will take some catching, while they must also fancy their chances in the Benson and Hedges final against Surrey.

Today, the difference in the ability of the various clubs is far less, which is largely the result of bringing in cricketing mercenaries from abroad.

It is not mere coincidence, or lack of talent that has stopped Yorkshire winning anything for eight years, but there must also be some doubts as to whether it really has been a levelling up.

This last asset was illustrated on Saturday when Essex made 338 for five, which included an opening partnership between Graham Gooch and Alike Denness of 170 on a far from docile pitch.

Somerset are pressing hard in the John Player League, chasing Essex in the County Championship and have serious designs on the Gillette Cup.

It is interesting that Denness, who elegantly stroked a fast, and most attractive century against Sussex at a place in the final on Saturday week, though it is difficult to see how one can afford to leave him out in a match of that importance.

Gooch has developed into a

made them even more determined to win something this season, I think they will.

Aldwych

Antony and Cleopatra

by B. A. YOUNG

Royal Shakespeare productions commonly seem better when they come from Stratford to the Aldwych, having played themselves in for a season. It is, suppose, a tribute to Peter Brook's thorough direction that *Antony and Cleopatra* seems almost unchanged.

Rome, and Pompey's ship are contained within a frosted glass cupola through which characters can be seen preparing to make their entrances. The play is thus reduced into a protracted quarrel between a man and a woman. Miss Jackson fills the bill admirably as the woman.

It is still long, slow, colourless, eccentrically cast and touched here and there with moments of genius. If the four qualities I have ascribed to it suggest that it is dull, then I have been misleading. Certainly I found the last half-hour of a three-and-a-quarter-hour evening in need of a shot of adrenalin; with no visible moment for the egomaniac couple to end their days in, they seem to take an unconscionable time a-dying, and Glenda Jackson, whose Cleopatra is at any rate lively in the earlier part of the evening, seems less at home with the prospect of death. "O, withered is the garland of the war" is breathless and chopped up.

But for acting truly worthy of company dedicated to Shakespeare you must look further down the cast-list. Patrick Stewart, bald and grizzled, looking like the White King in *Alice*, speaks Enobarbus's lines to perfection, besides projecting the personality of a real veteran soldier. Jonathan Pryce, swirling his white toga around, looks and sounds splendid as Octavius. David Suchet's gangster Pompey is fine. On the distaff side, there is a sympathetic Charmian from Paola Dionisotti.

Whether Mr. Brook, the designer Sally Jacobs, or Miss Jackson herself is responsible for her curious appearance, she don't know. She wears no kind of fiery until her death, and her hair is cut so short as to give her at some angles the look of a performing seal. But it is part of the principle on which the production seems to be founded to avoid any suggestion of visual illusion. Egypt,

Mr. Brook, in the austere mood that has overtaken him in recent times, does not seem to care much any longer for the poetry of Shakespeare's lines. So many of the small parts are rattled off with what seems a deliberately casual sound, so that the last words of phrases often disappear into the air. This will do well enough for *The Iliad*. It ought not to be encouraged in Shakespeare.

Elizabeth Hall

Gustav Leonhardt

by NICHOLAS KENYON

Even great musicians sometimes do unmusical things. It is difficult to feel that Gustav Leonhardt's transcription for harpsichord of Bach's sixth suite for solo cello is anything but a sudden aberration by a great Bach performer.

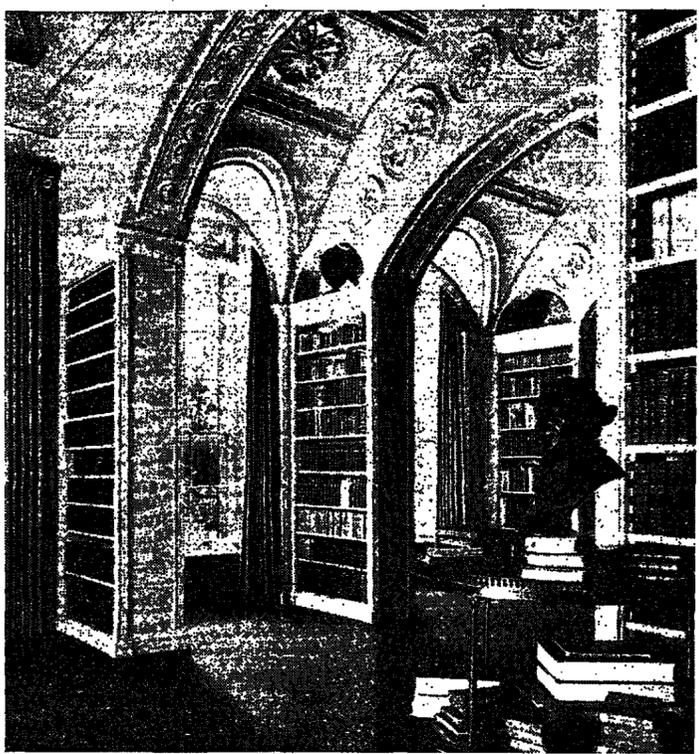
needs keyboard works adding to his output.

There are, of course, precedents for such transcriptions by Bach himself, and Leonhardt has previously made some from the solo violin works, but this latest sounded extraordinarily pointless. His version was, rightly, no mere rearranging of the notes. There were added counterpoints, and an attempt had been made to imitate a keyboard texture. Yet the result was quite un-Bachian: it lay at least a minor third too high in the treble register; its harmonies were baldly obvious (whereas they are only hinted at in the cello original), and all the interest of the cross-string articulation of the original was lost. Some transcriptions work: Leonhardt played another Sarabande as an encore, which sat perfectly, expressively on the keyboard; but, really, it is not as if Bach

On the evidence of the superbly first half of the recital, Leonhardt could have given us a majestic Partita or a group from the "48". He played six Scarlatti sonatas without any of the facile brilliance one so often hears—every phrase was clear and unburied; the accumulated tension of K.182 and 193 was both unusual and startling.

Leonhardt does not perhaps have the easy grace needed for French music: a group of pieces by Jacques Duphy sometimes sounded a little stiff, though the languorous anticipations of "Les Graces" and the bubbling basses of "La Dévaucanson" both made a fine effect. These exceptionally interesting pieces, showing the late French baroque evolving towards the early classical style, deserve a far more frequent hearing.

After Harley's extravagant reign at Wimpole the house was sold in 1740 to Philip Yorke, first Earl of Hardwicke and a leading Lord Chancellor of his day. He commissioned Henry Flitcroft to reface the central block and make certain interior rearrangements including a long gallery in the west wing. It was the third Earl of Hardwicke who employed Sir John Soane in the 1790s to create Wimpole's most remarkable rooms. Soane's architecture is still underrated in England and these rooms give a splendid opportunity to see how much more generous in spirit and in its sources of



The Book Room, Wimpole Hall

Architecture

Wimpole Hall by COLIN AMERY

Today Queen Elizabeth the Queen Mother opens Wimpole Hall, Cambridgeshire, the fourth great National Trust house to be inaugurated this year. From July 15 the public will be able to see for the first time a house and park that is a microcosm of the history of English 18th-century house architecture and landscape design.

reference Soane's work is when compared to European Neo-Classicism.

It was the last owner of Wimpole, Mrs. Elsie Bambridge, the only surviving child of Rudyard Kipling, who bequeathed the house and nearly 3,000 acres of land to the National Trust. She also left the majority of Kipling's manuscripts and copyrights to the National Trust with a generous endowment that has made it possible for the structure of the house to be repaired and a programme of gradual restoration to be started.

Soane's book room is one of the most ingeniously designed libraries to be found in an English country house. Projecting bookcases on each side of the room support grand elliptical arches decorated with fine plaster roundels. Black basalt Wedgwood urns and good Regency furniture complete the decoration of this strange and wonderful room. However, Soane's grandest achievement at Wimpole is the reception room known as the yellow drawing room. The room was designed to fill a rather awkward space and Soane's solution makes advantages of all the difficulties.

Wimpole is the largest house in Cambridgeshire and by far the most significant in terms of the number of famous architects and designers who have worked there. The earliest house was built about 1690 by Sir Thomas Chichey, the friend of architects Wren, Pratt and May. Wimpole was added to by the Duke of Newcastle between 1693 and 1710, and by Edward Harley, the second Earl of Oxford, between 1713 and 1731. It was Harley, the great friend of Pope, who employed the architect James Gibbs to extend the house and build the great library and chapel. The chapel was decorated by Sir James Thornhill as a masterpiece of 18th-century Baroque interior. It is one of the wonders of Wimpole.

The result is a high domed, basilical room, close in plan to the picture gallery that Soane had recently completed for William Beckford at Fonthill. Lit principally from the top of the dome the room has many of the qualities that must have been present in the great spaces of the now demolished Bank of England. At Wimpole Soane also designed a splendid sunken bath that is large enough for 12 people to stand in. Even a glimpse of it today in its rather dilapidated state makes one ponder upon the nature of the entertainments offered at Wimpole in the early 19th-century.

When Captain and Mrs. Bambridge bought the house in 1939 it was in very poor shape and even larger than it is now. From 1939 to 1945 the house was requisitioned and full of troops, a large American military hospital stood in the park and the restoration of the entire place must have seemed a daunting prospect. Despite the early death of her husband in 1943 Mrs. Bambridge carried on the task of restoring and furnishing the house entirely alone. She was fond of telling the story of her father's first reaction to her purchase of the great house. Kipling walked up to the front door and into the hall in complete silence, then he turned to his daughter and said, "Bird, I hope you have not bitten off more than you can chew."

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After Harley's extravagant reign at Wimpole the house was sold in 1740 to Philip Yorke, first Earl of Hardwicke and a leading Lord Chancellor of his day. He commissioned Henry Flitcroft to reface the central block and make certain interior rearrangements including a long gallery in the west wing. It was the third Earl of Hardwicke who employed Sir John Soane in the 1790s to create Wimpole's most remarkable rooms. Soane's architecture is still underrated in England and these rooms give a splendid opportunity to see how much more generous in spirit and in its sources of

able and today the task of repairing and maintaining the house is a heavy burden for the National Trust. To date the Trust has spent £340,000 on the house and this is largely to ensure that the structure is sound. Every effort is being made to retain the atmosphere created by Mrs. Bambridge, which is a strong combination of centrally-heated stables luxury and careful reconstruction of an 18th century house. The Trust has resisted the temptation to redecorate a great deal and this is to be commended.

In some National Trust houses the hand of the 20th century decorator is only too evident. At Wimpole the decision to use the great dining room with its early Victorian plasterwork as a tea room is a grave error of judgment. There is a ghastly sense of anti-climax as you pass from the saloon and breakfast room into a room full of canteen furniture. Perhaps when H. E. Kendall's stable block is repaired and its drinkers can be moved out of the sequence of great rooms.

His tears were understand-

Wimpole stands as a great tribute to the spirit of Kipling's daughter but it is the spectacular rooms by Soane that provide the visitor with a real frisson of architectural excitement.

Wimpole Hall will be open to the public from July 15 to October 14 every day except Mondays and Fridays from 2-6 p.m. The house is sign-posted off A603 eight miles south-west of Cambridge.

FINANCIAL TIMES

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# MPs deserve more

THE MOTIONS to be debated in the House of Commons on Wednesday on Mr. Michael Foot's proposal that the Government should back down slightly on its original proposals for the recommendations of the Boyle Review. Although the Government will still be phasing in the increases, it is now proposed that a rather larger amount should be paid in phase one. It is also proposed that there should be an additional allowance for inflation when the later phases of the increase go into effect, so that by June, 1981, when the process is complete, MPs should be earning rather more than £20,000 a year, as recommended by the Boyle Review. By that time, an agreement should have been reached which would tie MPs' salaries to those of other senior public servants, or of the theory goes, the question of MPs' pay should be taken out of the political arena.

**Harmful**  
The Government's concessions, such as they are, seem to have been inspired by the stormy election from MPs, especially Tory MPs, when it was announced last month that the increase would be paid in three equal stages. The Government, however, is still refusing to accept the recommendations of the Boyle Review in full and in no respect its latest concessions could be positively harmful. Boyle recommended that MPs' salaries should go up from £17,000 to £23,000 in June this year. The Government has turned down immediate implementation on the grounds that such a large increase, paid in three equal stages, could set a bad example for pay negotiations in both the public and the private sector. Yet the example now set by the Government is even worse. It is proposing, in effect, a system of indexation for the later stages of the award. MPs are to be compensated for the rise in the cost of living between now and mid-1981, when the third stage of the increase recommended by Boyle will be paid. One is bound to ask what the Government's reaction will be if other groups of workers, whether professional or manual, in the public or private sector, demand similar treatment. Yet if the Government itself is enshrining the principle of indexation in awards to MPs, it should not be surprised if others seek to follow suit.

As for the Government's attitude towards Boyle's proposal, it is necessary to return to the Review in order to set it in context. Boyle did not recommend that the increases should be phased in any way; it merely acknowledged that there might be political pressures against phasing the increase. If such pressures proved irresistible, it said, it was still desirable that the phasing process should be brief and should be completed by November next year.

The reason for this was that MPs' salaries had suffered unduly from the failure of previous governments to implement the Boyle Review recommendations in full. The present level of MPs' pay, for example, is now only about 85 per cent of what Boyle recommended it should be in June, 1975. Any further delays in implementing recommended increases would mean that this kind of situation would continue. The way for a government to rectify it was to move firmly by granting the award in one go.

Mrs. Thatcher's Government had that opportunity more than any other in recent years. It is a new government. It believes in incentives and indeed has already granted substantial salary increases to other professional groups. Any political unpopularity incurred by accepting the Boyle recommendations for MPs in full would have been quickly forgotten as the Government and the country turned their attention to other subjects. What is more, the whole question of MPs' pay could indeed have been taken from the political arena by calling for the early adoption of a formula that would link the salaries of Parliamentarians to (say) those of Assistant Secretaries in the Civil Service.

**Revolt**  
The final choice, of course, is up to individual MPs when they vote on Wednesday. It may be difficult for them to demand more for themselves when the Government has recommended otherwise. Yet it would be understandable, and indeed wholly justifiable, if there were to be an anti-government revolt. It is hard to avoid the conclusion that Mrs. Thatcher and her Cabinet had responsibility to lead, and that they have failed to take it.

# Rigidities in the bloc

LAST WEEK'S meeting in East Berlin of Warsaw Pact Communist Party officials whose job it is to maintain ideological purity would doubtless have passed off with a yawn had the Romanian delegate not drawn attention to it by leaving early when it became clear that what was required was another condemnation of China.

There is nothing new in Soviet-inspired attempts to condemn China, nor, indeed, in Romania's refusal to have anything to do with such exercises. But the pressures on Romania to conform are indicative of much deeper and more intractable problems facing party ideologues throughout the Soviet bloc.

**Nationalism**  
Communists did not come to power through free elections. Once in power they ruthlessly suppressed all other political forces, the Church and other forms of cultural and social expression which did not share the Stalinist version of the Marxist-Leninist world view.

In the meantime memories of Stalinist terror have receded and a new generation has grown up. Nationalism has imprinted its own individual stamp on all the highly differing countries which make up Eastern Europe. Religion, as the Pope's triumphal homecoming eloquently testified, has defied militant atheism.

supposed to be governed by its principles. Euro-Communism and most of the other attempts to reconcile theory with national traditions and the modern world have been developed outside the Communist bloc itself and been treated with deep suspicion.

One attempt within the Soviet orbit was the publication of a controversial critique of "existing" real socialism" by the East German Marxist Herr Rudolf Bahro. Publication in West Germany of his book "The Alternative" was rewarded with an eight-year jail sentence. His experience of East German socialism led him to conclude that imposition of a "historically distorted Soviet model had created a highly conservative, narrow-minded and intensely bureaucratic form of state capitalism.

Propping up the system are all the coercive tools available to a totalitarian system. These include: tight controls over information and the media; subtle graded privileges for the elite; and the risk of losing them, and in reserve, the willingness of the Soviet Union to use its own economic, political and military force to preserve its hegemony.

The trouble is that none of these problems ever get mentioned in the official ideology. Neither are the issues ever openly discussed and those Marxists in Eastern Europe who bravely attempt to do so are either crushed en masse — as in Czechoslovakia — or individually as in the case of Herr Bahro. But it does not stop there.

**Show trial**  
Last month the East German regime stepped up its repression of individual thought and expression by expelling eight writers from the Writers' Union and followed this by introducing a maximum sentence of up to 12 years jail for East German citizens who perform the traitorous act of speaking their mind to Western newsmen.



Sir William Barlow, Post Office chairman, limits to management

RECENT weeks, the Post Office has suffered the most sustained and serious attack on its competence since the last time it suffered a sustained and serious attack on its competence.

The point is only in part humorously meant. The corporation is continually in the Top Ten of the nation's Aunt Sallys: we now expect to communicate efficiently by written word and voice across long distances, and when we are baulked of that expectation's fulfilment, we curse the carrier. The Post Office is thus regularly anathematised; this past bout, say those of its executives who have acquired permanent stoops from ducking behind the parapets, is at least less severe than some.

But the customary hyperbolic rage now has a sharp barb beneath it. The Government is disposed to intervene in the affairs of the corporation; it is likely to split it into separate postal and telecommunications corporations, and may curtail its monopoly over telecommunications equipment. It has even said that it has an open mind about the monopoly of the postal business, and Sir Keith Joseph has called for reports on the feasibility of private enterprise — uniquely among major postal services — carrying a significant proportion of letter traffic.

Posts must now prove its efficiency. It is thus a good time to ask — how efficient are the country's mails, and what quality of service may we expect from them? And will the postal business, in the court of Sir Keith, be shown to be guilty of monopolistic inefficiency and be condemned to dismemberment?

First, the case for the defence: Exhibit one: the Post Office Review Committee (Carter Committee), which sat for 18 months and produced its report in July 1977, remains the best recent examination of the corporation. On posts, it commented: "we have not made a comprehensive survey, but as far as we can find out few, if any, countries have a postal service better than ours."

Exhibit two: the Government White Paper, on the Post Office, a response to Carter, was published a little under a year ago. It confirmed a target of a return of 2 per cent on turnover for the postal business, one which the business so far has easily met. It broadly agreed with Carter that the postal business was in good (if not brilliant) shape.

Exhibit three: the Post Office Users' National Council — the statutory consumers' body — published a report on the delivery performance of the mail services in January of this year. It found that first class mails achieved their target of 93 per cent of letters delivered by next working day, while around 85 per cent of second-class letters were delivered by the third working day. Of the 7 per cent of first-class letters which did not reach base the next day, only 2 per cent at most could be attributed to Post Office tardiness; the other 5 per cent was the fault of the customer, of British Rail or of the weather.

Exhibit four: international comparisons are fraught with difficulties, since no two countries are substantially alike geographically or socially. However, the table which accompanies this article, produced by the Post Office and hitherto unpublished, is a guide to how we perform.

It shows that British mails are in the lower half of the price range, that Britain has the most post offices per person (apart from Switzerland), that it compares well on number of deliveries, badly on number of letters posted per person, and is only average on productivity (numbers of letters posted per employee). It is also the only one — apart from the Netherlands — which made a profit. On this sample, and on these figures, it could lay reasonable claims to being "the best."

The defence could go on, but it rests here. The case for the prosecution should be preceded by a general preamble: over the past two weeks, Sir William Barlow and his senior postal executives have made it

### INTERNATIONAL COMPARISON OF POSTAL SERVICES

	UK	BELGIUM	FRANCE	W. GERM.	ITALY	NETHERLDS.	SWITZ.	U.S.
Purchasing Power Parity price of 1st class letter	10.0p	9.5p	11.4p	11.3p	11.9p	10.4p	6.9p	72p
Number of letters posted—(m)	9,237	2,467	11,800	12,400	5,800	3,900	2,900	92,000
Number of inland parcels posted—(m)	142	—	—	251	26	8	124	762
Number of Post Offices	23,100	1,800	17,500	20,700	13,900	2,500	1,900	30,500
Number of employees	198,000	52,000	244,000	271,000	173,000	57,000	34,000	855,000
Number of letters posted per employee	47,000	47,000	48,000	44,000	33,000	68,000	85,000	140,000
Number of letters posted per head of population	165	251	219	204	102	282	457	427
Population per Post Office	2,421	5,444	3,072	2,971	4,052	5,526	1,627	7,081
Number of letter deliveries per day in main towns	2 (Sat. 1)	2-3 (Sat. 1)	2 (Sat. 1)	1	2-3	1	N.A.	2 (Sat. 1)
Profit (loss) £m in 1977*	40	(124)	(95)	(619)	(208)	10	(68)	(375)

\* Indicates that figures are the latest available. All other information derives from UPU statistics of 1978 (except for U.S., which are from 1977 Report and Accounts of USPO). Source: Universal Postal Union

clear that, in their view, management of the modern postal service has well-defined limits. By far the most important of these is the strength of organised labour. If the Union of Post Office Workers refuses to allow something to happen, it will not happen. To take on the unions, and to attempt to manage by fiat at any stage, is not regarded as a reasonable option.

In large part, this is so because the corporation's 400,000 workers have more formal power than workers anywhere else in the economy. They have had several part-time workers' directors on the Board for 18 months, and similar representation on regional and local committees. This is in itself a rationalisation of the considerable power of veto they have had for many years.

Post Office management is thus, quite consciously, in the position favoured by Disraeli, who appreciated at least some of the effects of the progressive enfranchisement of the lower orders: it must seek to educate its masters. The main lesson is also the main cause for the prosecution: it concerns productivity.

The case for the prosecution: Exhibit one: productivity in the postal business — roughly measured as throughput of mail per man — has been on a downward trend for years. Eight years ago, 175,000 postmen handled 11.9m pieces of mail a year; now, around the same number cope, sometimes inadequately, with 2bn less. That is a big drop for any business. Carter found that after a 23 per cent increase in postal productivity between 1922 and 1939, and a further (probable) increase of 20 per cent between 1939 and 1966, the index began to fall, showing an 11 per cent drop between 1966 and 1976. In the same decade, sorting time per mail unit went up by 12 per cent.

In extension, it must be said that there has been a reversal of the downward trend in recent years. That reversal, however, as postal executives admit, is wholly due to an increase in mail volume unaccompanied by equivalent increases in staff. Working practices are no better, and may have continued to worsen.

Exhibit two: quality of service, which is generally taken to mean the frequency with which the business can deliver first and second class mail, has declined. Its targets are now to deliver 93 per cent of first class post by the next working day, and 96 per cent of second class post by the third working day (down from second working day two years ago). Last year, it was not in June, first class mail was around 85 per cent; it is getting a little better, but the summer holiday season, with staff shortages, will probably make that little a very little.

Mr. Michael Corby, the regional executive who is now director of the Mail Users' Association, has calculated a "quality of service" index which shows a 15 per cent decline since 1969.

Exhibit three: value for money, a rather difficult concept to determine, has also been calculated by Mr. Corby in the course of research for a forthcoming book. This index is constructed from Post Office figures on service provided for first class letters divided by the real price index. The resulting index, taking 1969 as the base year, shows a decline of more than 50 per cent.

A judicious summing up, then, might conclude that while the postal service compares favourably with postal services in other countries, it compares unfavourably with its own past performance. In general terms, this is not the picture the corporation's executives, indeed its trustees, are concerned over productivity. So what is to be done?

First, the increase in mail volume over the past two years must continue. The generally young and vigorous senior executive team in the postal business believes it can: Mr. Bill Cockburn, the director of postal finance, sees — given hard work — growth over the next five years at least. "But in the next five years after that, telecommunications might start to be very competitive with us. Prices for phone calls will go down in real terms, quite dramatically." Also, he cannily points out that the recent improvement has been due to one-off factors, such as a sudden relief from the burden of a huge pension fund deficit

(through a piece of imaginative accountancy) and a rigid pay policy. The big growth since 1976 has come from parcels, where the corporation can compete in price with other carriers, and in bulk mail where it has marketed hard and secured large contracts. Further growth is likely in "junk" mail — circulars — but a number of UPW branches, especially in London, won't handle it, so the service is not yet nationwide.

Second, and much more important, the UPW must convince itself of the virtues of higher productivity, in part as Cedric Briscoe, director of postal operations stresses, this means a "philosophical shift". The postmen, he says, "have since the war been a low-paid, low productivity, labour-intensive union. The union has genuinely believed that the corporation should pursue a social policy on employment, taking on as many people as it could. We would want to convince it that it should change to a higher-paid, high-productivity, less-labour intensive union. I think it is in its interests and I believe many of its members think so, too."

**Devolution of power**  
Both Mr. Briscoe and Mr. Cockburn are keen on more devolution of power and responsibility in pursuit of productivity. Mr. Cockburn is encouraging his postmasters to become businessmen, concerned not just with cost-cutting but also with dreaming up ways of generating more income. "We don't want rigidities in the budgeting system to work against effective marketing."

Mr. Briscoe goes even further. "In my view, the only kind of productivity schemes which will work are local, rough-cut, National schemes don't work." (The National Coal Board, interestingly, came to the same conclusion two years ago, when it scrapped a moribund national scheme in favour of regional and pit agreements.) Such "rough-cut" schemes are still a possibility. For now,



Tom Jackson, Post Office Workers' leader: a power of veto

the corporation is trying to get the UPW to agree to a package of productivity measures which include acceptance of grade measurement, temporary labour in the summer months and re-routing of mail between sorting offices. The indications are that it might win the first, has an outside chance on the last, but would need a miracle to convince the postmen that temporary labour did not imply a "deskilling" of their jobs.

Optimists in Post Office management believe this might happen: that the UPW will be convinced the higher productivity is essential to safeguard their jobs (that means rank and file postmen, not just the leaders, who are already convinced); that productivity measures will come in, though they will have to be paid for in relatively higher wages; and that, while postal services will rise to accommodate these changes, the service will be fully efficient.

If this is how the cards fall, the shape of the service in a decade's time might be, says Mr. Briscoe, that "we will have very good premium services (such as Expresspost and Datapost, where growth has been rapid); a not bad 'middle service' — the bulk of ordinary mail — handled possibly a little less well than now; and a big proportion of mail handled a bit better than now."

If this does not happen, then, Mr. Cockburn believes, "we will see very rapidly increasing unit costs and we will lose out entirely in the telecommunications. It is very, very hard to get productivity up when the traffic is going down."

Finally, it must be said that the impression given by senior management in the postal business is that no one believes that private letter carriers will assist the efficiency of the mail. All believe that the post would lose its profitable services and be forced into endless deficits. They further believe that private business would be both inefficient and expensive.

They are, however, now required to prove that a continuation of the postal monopoly will be better. The case continues.

# MEN AND MATTERS

## Going rate at the heart of things

FIVE THOUSAND Bank of England staff have been given a salary increase, but Sir William Barlow has it has gone through without any undignified publicity. But the Bank's last quarterly bulletin spoke of the need for wage restraint, so it must be helpful to the rest of us to know how they will fare in Threadneedle Street in the coming year.

First of all, there is a 10.3 per cent rise based upon the retail price index. Then there is 16 per cent more, to be paid in two instalments — 6 per cent in November and 10 per cent in March. This, I am told, is designed to bring Bank of England staff in line with other banks, which also involve a measure of internal restructuring.

Finally, there is an additional £275 on the London allowance. Overall, this will be worth about 30 per cent to a typical staff member by next spring.

## Travel tactics

French holidaymakers will soon be able to book their trips abroad at their friendly neighbour tobaccoists. The trade mark will be "Blue Holidays", the colour of a packet of Gauloises. The travel agents are enraged, but a poll of tobaccoists — who are almost invariably café owners as well — shows them 96 per cent in favour.

## Closed book

As the advertisements for Ladbroke proclaim, the organisation "loves a bet." However, a sense of propriety has compelled it to close the book on whether it will lose its London casino licences in the current hearings in front of the good men and women of the South Westminster magistrates court.

But for all the SNAV complaints, it sounds promising for France's 46,000 café owners. If customers, sipping aperitifs, can be tempted to buy lottery tickets, why should they not also dip through brochures directing them to exotic places?

## Old campaigner

The Sandinista guerrillas in Nicaragua are about to receive their most distinguished and oldest recruit. Dr. Luis Adolfo Siles Salinas, who was President of Bolivia in 1969, last week celebrated his 54th birthday in the Balmoral Hotel in San Jose, Costa Rica. He was reading

## Token problem

The closed economy of an academic babysitting co-operative is no model to unforceable monetary ill, even when the currency in use is tokens from Kellogg's Cornflake packets. In De Freville Avenue, a backwater of Cambridge, the dourish babysitters were recently taken back to uncover a dilution of the originally fixed number of tokens — each representing a night on duty at somebody else's house. The supply had been diluted by some freelance cutting up of cornflake packets.

Rather than start a witch-hunt, a new currency was devised — university computer cards of a distinct reddish colour and covered in numbers. But soon the counterfeiter was at work again. Unauthorised types of computer cards were put into circulation.

## Pram jam

A Continental reader who enjoyed my recent story about the man in Batum/Tiflis who won/lost a car/bicycle in a Georgia lottery/Soviet meeting recalls the tale of another comrade who worked in the People's Democratic Perambulator factory in "an unnamed foreign state."

## Old campaigner

Since his wife was expecting the birth of their first child, he decided to suspend his socialist principles and steal one component from the factory each day to assemble a pram at home. Sadly, the scheme came to naught. As he confided to a friend: "It's no good — no matter how I put the pieces together, it always comes out as a machine gun."

## Observer

He got on £100 at

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# FINANCIAL TIMES SURVEY

Monday July 9 1979

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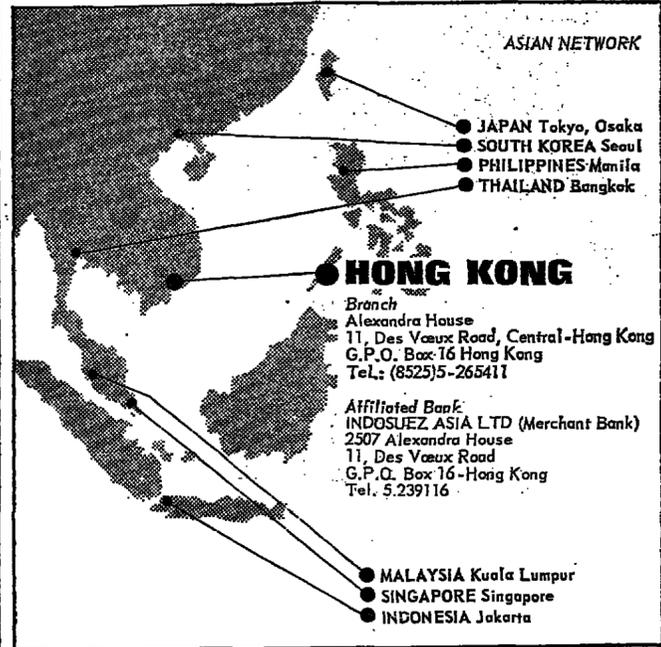
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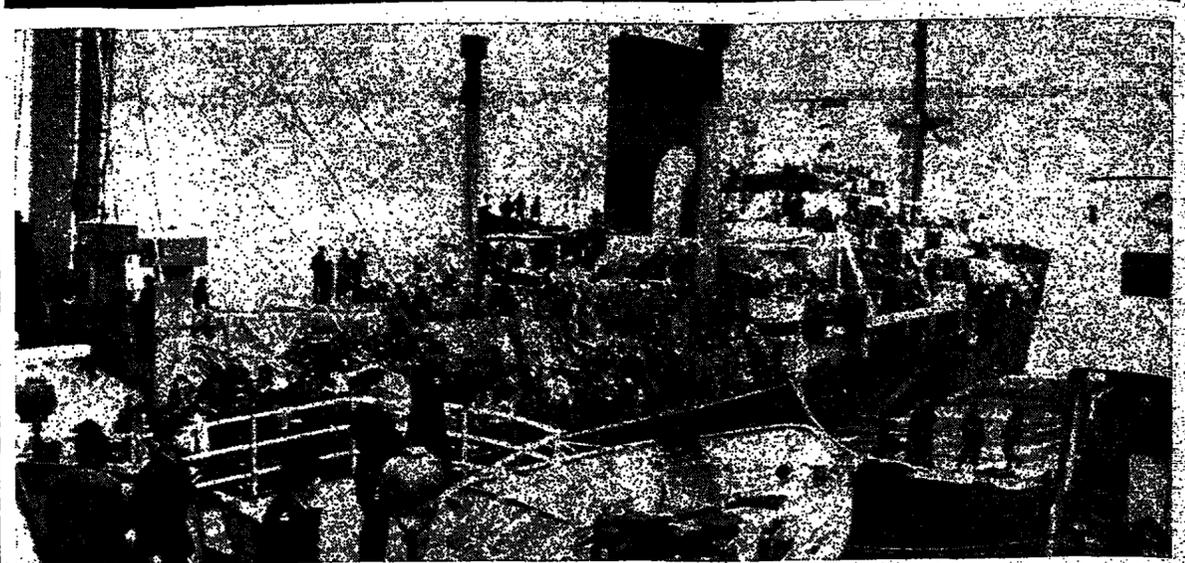
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Under the watchful eyes of the Hong Kong Marine Police (left foreground), the Vietnamese refugees aboard the "Huey Fong" finally meet an end to their 28-day ordeal outside Hong Kong waters.

Following an upsurge of optimism over Hong Kong's long-term future, the colony has since shown considerable resilience and flexibility in the face of a massive refugee/migration challenge. But a still more pressing problem is the need to keep the colony's economy moving through some choppy waters immediately ahead.

# Choppy waters ahead

By PHILIP BOWRING

HONG KONG has long enjoyed and profited from the freedom of the passions of international affairs accorded by its status as a political enclav. But recent months have shown just how little control Hong Kong has over its own destiny.

Confronted by what, for a while, seemed a tidal wave of immigrants, legal and illegal, from China, it could do little but appeal to China to relieve the pressure. And confronted with a massive flow of boat refugees from Vietnam it realised that its curious international status made it impossible to follow the same callous policies towards the refugees as its South-East Asian neighbours—even assuming that a Chinese refugee community had it in its heart to condemn the refugees to likely death at sea, by pushing them away.

Ironically, the immigrant and refugee issue followed hard on the heels of an upsurge of optimism about the long-term future of the colony flowing from China's more liberal internal situation and the enhanced importance it is now giving to foreign trade.

Just as ironically, the response to the refugee/migration challenge has shown up much that is best in Hong Kong—the resilience and flexibility by which an intensely overcrowded city can absorb into its economy and into its society tens of thousands of newcomers, with few apparent problems. Equally, the China euphoria has given a boost earlier to the speculative property fever which is a recurrent disease in Hong Kong, and fuelled an outburst of new rich consumerism which was a joy to importers of items such as Mercedes-Benz cars and strobe lights for discotheques, but produced a huge and unsustainable trade deficit.

The human inflow crisis proved Hong Kong's powerlessness. But it perhaps has done more than anything in recent years to improve the City-State's image overseas, where it is still often presented as a fetid sweatshop, where a handful of colonial rulers and Chinese millionaires lord it over toiling millions of Chinese refugees. Its humanitarianism did not go unnoticed.

Its governor, Sir Murray Maclehoese, in visits to Europe and the United States, proved an effective promoter of Hong Kong as a State facing a massive problem but refusing to be panicked. Many outsiders were amazed at the economy's apparent ability to handle the inflow without an increase in unemployment.

Perhaps the attention given to Hong Kong in recent months may help attract a person of strength and quality to a job which carries immense power and responsibility. The next governor will have to face the consequences of China's new outward-looking attitude for Hong Kong, and the question of finding some formula to provide a firm basis for the present system continuing beyond 1997.

As Hong Kong looks for more capital intensive industries, some formula will be needed if legalistic foreign investors are not to be deterred.

Sir Murray's governorship has coincided with a transformation of relations between Hong Kong and Peking—from the cool if correct days of the early 1970s, when memories of the Cultural Revolution disturbances were still fresh, to the positive warmth today. China is openly admiring Hong Kong as an example of modernisation at the same time as looking to it as a source of foreign exchange, and expertise and capital to help achieve its own modernisation.

But in the longer run the old rigidities in Hong Kong-China relations may prove no more difficult than managing a situation where there is much closer contact between the two.

So, just as Sir Murray Maclehoese looks to be finally coming to the end of his governorship with a successful appearance on the world stage, he is also seeing setbacks in the field to which he has devoted his biggest efforts as governor: improving housing, education and social services, and generally knocking some of the harsher edges (including corruption) off Hong Kong's society.

China's aim must be to maximise revenue from Hong Kong, perhaps by allowing a higher rate of immigration into the colony which would have a lasting impact on wages and living conditions in Hong Kong. Now that Chinese people hear more about Hong Kong, and as the leadership in China faces the task of delivering on some of its promises, China may not want to see a further widening of the gap in living standards between itself and the capitalist enclave.

But that may be unduly pessimistic. Historically, Hong Kong's economic achievements—on a per capita basis—have been at least as good as, for example, Singapore, which has almost all immigration. Most while, there is anyway a very pressing problem: to keep the economy moving through some choppy waters immediately ahead.



Behind this fishing junk in Hong Kong harbour is seen the 52-storey Connaught Centre, Asia's tallest building.

**BASIC STATISTICS**

Area	404 sq. miles
Population	c. 5m
GDP (Provisional Estimate)	HK\$51.6bn
Per capita	HK\$11,447

**TRADE 1978**

Imports	HK\$64.7bn
Exports	HK\$44.9bn
Imports from UK	\$382.4m
Exports to UK	\$521.3m
Currency	\$1 = HK\$11.1874

China's aim must be to maximise revenue from Hong Kong, perhaps by allowing a higher rate of immigration into the colony which would have a lasting impact on wages and living conditions in Hong Kong. Now that Chinese people hear more about Hong Kong, and as the leadership in China faces the task of delivering on some of its promises, China may not want to see a further widening of the gap in living standards between itself and the capitalist enclave.

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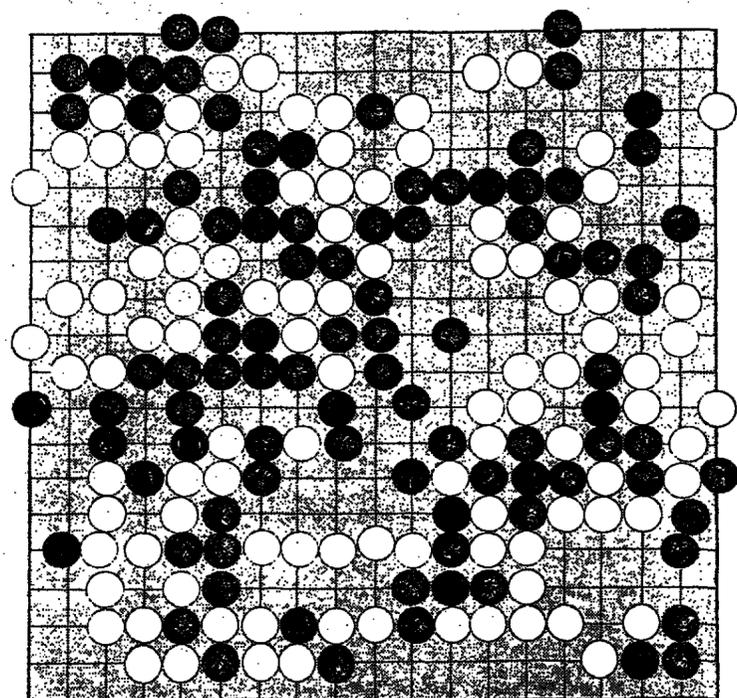
The range of services is wide and flexible and includes the raising of capital, both locally and internationally: project finance; corporate advice on the financing of short or long term development plans; money and investment management; foreign exchange and bullion broking.

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Corporate banking in Asia

## Strategy: the key to success.



Go, thought to be one of the oldest games in existence, originated in China over 3,000 years ago and was later adopted by the Japanese. One of the greatest games of strategic skill, the idea is to secure as much of the playing area as possible. (Here, black is in a strategic position.)

### Coincidence

In fact, there was a fortuitous coincidence of an economic boom at the same time as the inflow. Without the boom, the inflow might have caused unemployment and social problems as newcomers and older residents competed for jobs. And without the inflow of labour—most of the migrants are of working age—the overheating of the economy would have had more serious consequences than has so far been the case.

As it is, the inflow issue has tended to overshadow the fact that Hong Kong will not find it easy to adjust to the sharply lower growth, particularly in money supply and credit necessary to get back to equilibrium, especially if the new oil crisis induces stagnation in Eastern markets. Both the government and the leading banks must take the blame for belated action to stem the overheating, which has led to a sharp fall in the local currency and taken price inflation into double figures.

The brighter side has been

**ON OTHER PAGES**

The economy	IX	Property	X
Relations with China	IV	Textiles	XI
Relations with Japan	V	Electronics	XII
Tourism	VI	Mass Transit Railway	XIII
Relations with Britain	VI	New Towns	XIII
Banking	VII	Infrastructure	XIII
Trade	VIII	Housing	XIV
Shipping	VIII	Local Government	XIV
Commodities	IX	Immigration	XV
The Stock Exchange	IX	Film Industry	XVI
Diversification	X	Gambling	XVI

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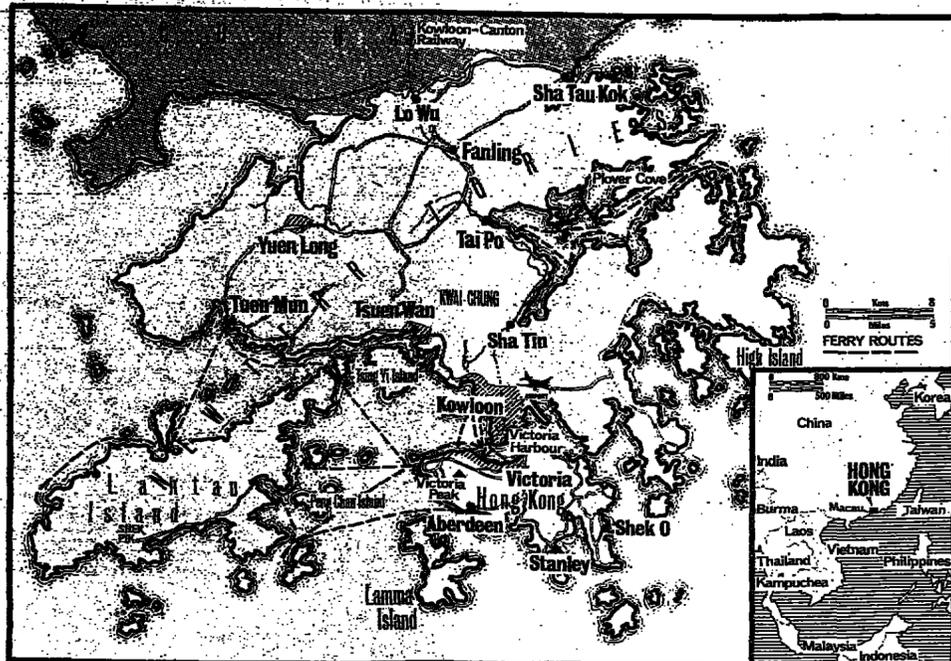
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مركز الأبحاث

# HONG KONG III



## Weighing the risks of expansion

HAVING SPENT three years proving that it can perform at least as well as the more Government-directed economies of Taiwan, South Korea and Singapore, Hong Kong is in the process of proving that a free-wheeling approach has its dangers too.

Even after allowances are made for the two recession years—1974 and 1975—that preceded it, the performance of the pro-Hong Kong economy in the three years 1976 to 1978 was remarkable. Real GDP expanded by 16 per cent in 1976, 12 per cent in 1977 and 10 per cent last year.

In comparative terms it was a record three years for Hong Kong which placed it well ahead of Singapore and at least on a par with South Korea and Taiwan—a singular achievement considering that part of South Korea's phenomenal growth is accounted for by the move of people from low-productivity agriculture to higher-productivity industry, a process which does not occur in already urbanised Hong Kong.

Nor are Hong Kong's GDP gains attributable to heavy investment in capital intensive industry such as heavy chemicals and synthetic fibres as in Taiwan. Hong Kong's gains have been due very much to increased productivity which has been more a result of greater skills than injected capital.

However, the growth rate has been a mixed blessing. The Government, manufacturing industry, and indeed anyone with an interest in the underlying stability of the economy would have been happier with two rather than three years of double-figure growth.

### Impulse

The spending potential was generated by the export boom back in 1976, when exports jumped 28 per cent. It was a long time making itself felt, but the pent up consumerism finally made itself felt with increases in consumer demand of 17 and 16 per cent in 1977 and 1978 respectively. And it is an impulse which is proving very difficult to slow in the face of abiding optimism and the apparent failure of previous automatic correction mechanisms within the economy. But slow it must.

The boom in domestic demand has had important consequences. There has been a rapid widening in the visible trade deficit. Last year this reached HK\$9.1bn, more than twice the previous record set in 1974. The villain was the domestic demand which caused a rise of 20 per cent in retained imports in real terms and diverted at least some of the available resources away from the export sector.

Such has been the momentum that despite attempts by the Government to restrain demand primarily through exhortation

### THE ECONOMY PHILIP BOWRING

and some modest monetary measures, an even bigger trade deficit is expected for 1979. In his budget, Mr. Philip Haddon-Cave, the Financial Secretary, forecast a growth in real terms of 10 per cent for imports and 8 per cent for exports, implying a deficit of about HK\$ 12bn. With figures available up to April, Mr. Haddon-Cave's deficit forecast is looking about right or perhaps a little low. For the first four months the deficit was HK\$ 4.58bn. Domestic exports rose 37 per cent, re-exports 38 per cent and imports 43 per cent.

The latest figures are difficult to interpret with any accuracy owing to the recent violent fluctuations in the Hong Kong dollar exchange rate. Optimists take comfort from the fact that overall exports are now beginning, for the first time since 1976, to widen owing to a sharp rise in the value of total trade. The fall in the value of the Hong Kong dollar may have worsened the terms of trade, but this trend will right itself as enhanced competitiveness is reflected in export demand.

A more pessimistic view is that buoyancy of exports will not last even despite improved competitiveness because of the supposedly impending U.S. recession and the uncertainty in other markets caused by the latest oil supply and price problems.

What is beyond reasonable dispute is that the current level of trade deficit cannot be supported for very much longer without another serious decline in the value of the currency. The trade weighted exchange rate index at about 93 (1971=100) has fallen by 11 per cent over the past year and by 20 per cent from its early 1976 high. It briefly collapsed to 90 in April when jitters hit the local foreign exchange market. The decline is almost certain to mean a period of double-figure inflation, the impact on consumer prices would have been much worse already but for chance favourable movements in prices of rice and some other foods.

The visible deficit will have been partly offset by services earnings. But by how much is not at all clear. Earnings from tourism have continued to increase rapidly—the number of visitors last year rose 17 per cent. But expenditure by Hong Kong tourists abroad has risen rapidly, too.

In the Government's (admittedly far from accurate) estimates, Hong Kong was only barely in the black on travel account in 1978—expenditure of HK\$ 4.15bn and earnings of 4.67bn. That could even mean a red entry in 1978 because of the upsurge in travel to China. There has been also a surge in transfers of money to China.

Government estimates of income (a national figure of 5 per cent of total exports of accounted goods and services

is added) probably vastly underestimates real earnings, especially from the still rapidly-growing financial services sector.

But there was undoubtedly a substantial overall current account deficit last year. Offsetting it was substantial capital inflow from foreign borrowings to finance the mass transit railway. And between March 1978 and 1979 there was a fall of more than HK\$1bn in the apparent net foreign asset positions of banks in Hong Kong.

### Symptoms

It has proved easier to describe the symptoms than the cause of Hong Kong's domestic boom. Construction spending was up 19 per cent in 1978 following a 32 per cent rise in 1977 and an unparalleled surge in car imports which increased the number of private cars on the road by nearly 20 per cent in just a year.

Government tends to blame the banks for pushing a buoyant economy into dangerously overheated one. Bank advances have grown by 45 per cent over the past year. The private sector tends to blame the Government for its own spending surge, particularly the mass transit railway.

The Government in fact has accumulated surpluses of about HK\$2.5bn over the past two years, but they have not had the deflationary impact that might have been expected because they have been kept mostly on deposit in Hong Kong rather than invested abroad. As a result, they have been available as a base for expanding bank credit.

The Government was in a cleft stick. To have espartiated the surpluses would have reduced credit creation, but also would have exacerbated the weakness of the Hong Kong dollar.

The current boom is the first that Hong Kong has had since it moved to a floating exchange rate in late 1974. Neither the Government nor anyone else had realised how much conditions had changed as a result. The big current account deficit, instead of acting to reduce money growth was actually found to be able to coexist with a very rapid growth of money and an even more rapid growth of credit.

The Government's own spending did not help matters. Having lagged way behind target in previous years owing to problems in implementing major capital projects, Government capital spending took off with a vengeance, rising 90 per cent in current prices in the fiscal year ending March 1979.

Meanwhile, expenditure on the mass transit railway—which must count as the public sector even though it is not consolidated in Government accounts—progressed at a high though stable level. Government is now trying to slow down its public works programme but that cannot be done quickly. Government total spending is budgeted to increase 13 per cent this year. That is about in line with GNP at current prices.

months of interest escalation, lending is only now just beginning to slow down. The ratio of loans to deposits of the banks has risen more than 80 per cent, compared with under 70 per cent a year ago.

Many banks clearly have had to rely on large borrowings from parents overseas or foreign inter-bank markets to maintain liquidity. There is an indication that banks have over-committed themselves to loans which have yet to be fully drawn down.

Sooner or later interest rates are likely to squeeze the property sector very severely. There is clearly a danger of incomplete building, forced sale and other hallmarks of the pricking of a property bubble. After some alarms earlier this year, the market is calm. But Mr. Haddon-Cave's warning that the longer adjustment was delayed the more painful it would be is still relevant.

So too is his general observation in his late-February Budget speech that the problems facing the economy were more severe than those facing it at the end of 1973—the last time Hong Kong moved rapidly from boom to recession.

That does not mean another recession on 1974-75 lines. World conditions are less gloomy now than then but domestic problems may be more complex. The economy as a whole, and many individual businesses, are now more highly-g geared than in the past.

Considering the strength of the domestic demand boom, inflationary pressures would have been much more severe than they have been but for the massive influx of people from China, legal and illegal.

Last year net immigration was around 100,000 and this year has been at an even higher rate, with most of the newcomers of working age. The influx has helped keep wage rates from rising insupportably fast. Average rates rose about 15 per cent in the year to last September, or 9 per cent in real terms. Taking into account the decline in the value of the Hong Kong dollar on a trade-weighted basis during the past year, Hong Kong has maintained, and possibly even improved, its international competitiveness.

Employment in manufacturing rose by 45,000 to 800,000 people between end 1977 and end 1978 despite the competition from both the services and construction sectors. Manufacturing employment grew by 8 per cent between end 1977 and end 1978. As a result Hong Kong so far is experiencing little if any difficulty absorbing the massive inflow of migrants during 1979.

However, there clearly are finite limits to what the labour market can absorb. The slow-down in demand which must come about will reduce new employment opportunities. The textile and garment export sector are constrained by quota, and employment in them is rising only very slowly. Market outlets for other products are mixed, especially in the U.S.

Mr. Haddon-Cave's forecast of export growth of 7 per cent in real terms this year now looks as though it could be an underestimate. But an underestimate is also likely on consumer prices which he expected to rise 9 per cent. Though that would be easily the highest since 1974, the decline in the currency and the rate of wage increases point to a double-figure level. That conceivably could set off an inflationary wage spiral. However, so long as the labour market eases before long, that danger may not be great.

It remains one of Hong Kong's strengths that wages tend to follow labour demand rather than respond to price increases. To that extent at least, Hong Kong's feet remain firmly on the ground despite the euphoria of the past year.

Handwritten signature or mark.

## Growing up together

The Swire Group has been in Asia since 1867, and we've seen some changes. Hong Kong, our main base in the region, has enjoyed incredible growth and development over the years.

And so have we. In shipping and dockyards, in soft-drink bottling and paint manufacturing, in airlines and property development, hotels, trading, and marine engineering, our expansion has been, we think, contributory to, and parallel with that of the region.

Our Shipping and Offshore Services Division supplies vessels on charter, offshore oil rigs and other equipment used in the ongoing search for the world's offshore oil and natural gas.

Among these is one of the most advanced oil rig servicing vessels yet developed—a computer-assisted craneship.

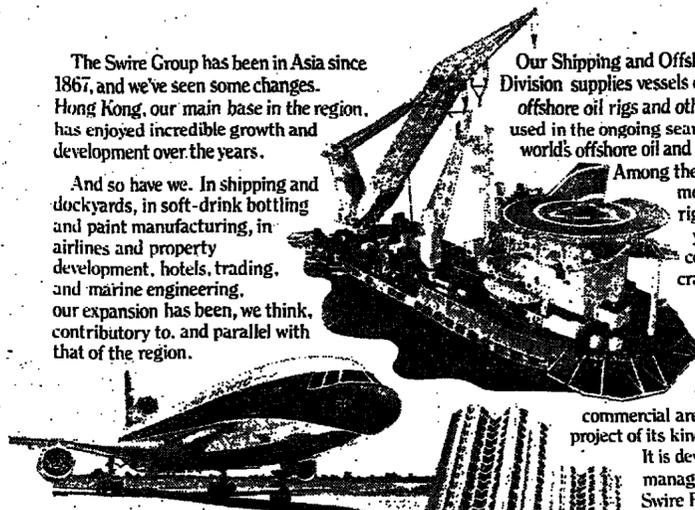
Taikoo Shing, our "city" of 52 modern residential towers and

commercial areas, is the largest project of its kind in Hong Kong.

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Cathay Pacific Airways, our airline, has developed in just over thirty years into a fleet of Lockheed Super TriStars, Boeing 707's and soon-to-come 747's linking South East Asia, Japan, Korea, the Middle East, and Australia. It's supported in Hong Kong by other growing companies including an aircraft engineering company, sophisticated air catering facilities, an air cargo terminal, and related airport services.

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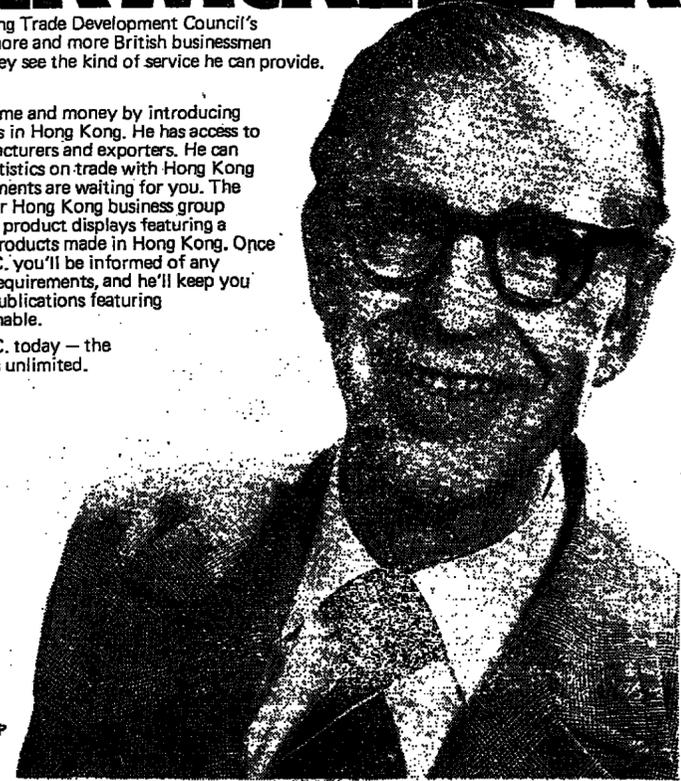
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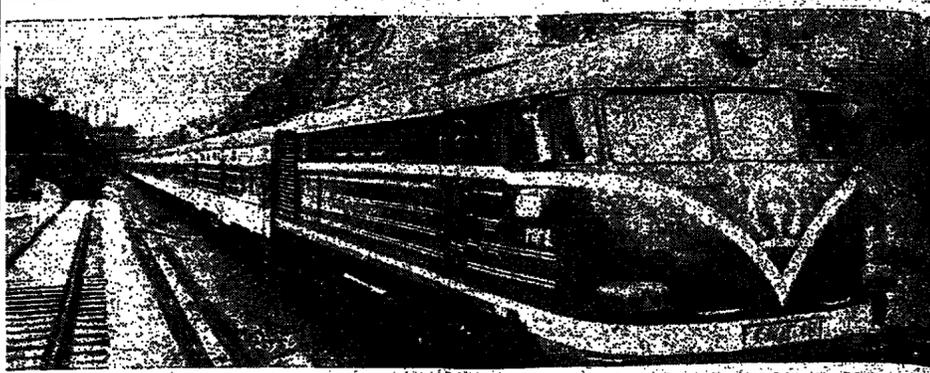


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# HONG KONG IV



A direct express through-train passenger service from Guangzhou (Canton) is seen approaching its destination in Kowloon, Hong Kong. The train, with ten passenger coaches, operates one service each way daily.

## Two-way traffic building up

### RELATIONS WITH CHINA

MELINDA LIU

HONG KONG, gateway to China. This cliché has traditionally inspired Western companies to set up offices and station analysts in Hong Kong, and to pay handsomely for a tedious monitoring of commercial to-ing and fro-ing across the border. The slightest whisper of deals being clinched would trigger full-scale commercial pilgrimages into China. An ongoing commercial relationship with Peking, it was once thought, could not exist without a strong Hong Kong connection.

Hong Kong's role as a physical gateway into China is almost certainly never likely to disappear. But its significance is losing ground these days to the concept of Hong Kong as a support base within the overall Chinese scheme. The view from the other side of the equation is becoming more evident that Hong Kong is also a Chinese gateway to the outside, as well as a crucial factor in many projects planned on the Chinese side of the border.

As other cities forge air links with Chinese cities and commercial offices in Peking become a reality, Hong Kong's role as a geographic jumping-off point and monitoring station for China will diminish in relative importance. What will continue to proliferate, however, are the steadily increasing examples of Hong Kong participation in the neighbouring Chinese province Guangdong.

During the recent National People's Congress session held in Peking, delegates from Guangdong reported that business representatives from Hong Kong and the nearby Portuguese-administered territory of Macao had signed more than 300 contracts for manufacturing projects in the province. The contracts involve processing and assembly work, some of them utilising raw materials supplied by the foreign buyer.

### Development

Moreover, earlier this year the areas directly adjacent to Hong Kong and Macao—called Shenzhen and Zhuhai respectively—were elevated by Peking to the status of special municipalities. The impetus of this move will be increased allocation of national investment and manpower to Shenzhen and Zhuhai, with the aim of developing them into foreign trade and tourism zones which will directly involve Hong Kong and Macao.

Hong Kong's role in Guangdong was also part of the message Chinese officials passed to Hong Kong Governor, Sir Murray Maclehoze, during his trip to Peking earlier this year. Chinese Vice-Premier Deng Xiaoping requested Sir Murray to ask Hong Kong investors to "put their hearts at ease in what was seen as the highest level assurance to date of Peking's interest in maintaining a healthy investment climate in Hong Kong.

At the same time Chinese authorities at all levels emphasised their hopes that Hong Kong would play an important role in China's development programme, particularly in the growth of neighbouring Guangdong Province.

Sir Murray said provincial planners from Guangdong were especially straightforward in expressing their belief that investment in Shenzhen, just across the border from Hong Kong's New Territories, would be particularly attractive to investors in Hong Kong. Featuring readily available land, labour and proximity to the self-administered territory, Shenzhen is likely to be China's model for a number of export-orientated zones to be developed throughout the country.

China has reportedly already spent nearly \$4m on improving roads, power supply, railroads and water supplies in the predominantly rural area. These infrastructural improvements are intended to aid not only industrial development but also the creation of a tourist area in Shenzhen which will attract 5,000 to 10,000 tourists daily from Hong Kong.

These ambitious plans envisage a wide range of facilities—from a hot springs spa to a

resort beach—and according to Shenzhen officials are expected to help boost foreign exchange from tourism and export-oriented industrial projects to more than 300 per cent of present earnings by 1982. By that time income from fees paid by foreign companies for the processing of materials supplied from outside are expected to be more than 200 per cent the value of Shenzhen's total present industrial production.

Returning to Hong Kong from his China trip Sir Murray reported that the general Chinese plan is to enlist Hong Kong aid in developing Shenzhen in the areas of agriculture, light industry and tourism. Top priority will go to agriculture, particularly the provision of dairy produce, fruit, vegetables, pigs and fish for the Hong Kong market. Some of the projects involving foreign input which are already under way involve clothing yarn, shoes, flowers, luggage, handbags, toys, electronics assembly and poultry farming.

To Western companies enthralled by visions of integrated steel mills and other grandiose aspects of China's modernisation programme unveiled last year, Shenzhen's plans may seem very modest. But the blueprint for Shenzhen

is a realistic reflection of Peking's readjusted development strategy, which was officially confirmed during the recent National People's Congress meeting.

In addition to the mounting evidence of China's warm welcome to Hong Kong input into Guangdong is the growing involvement of China's commercial interests in Hong Kong. In May the Hong Kong branch of the Bank of China made its debut as a leader in a commercial loan syndication when it signed an agreement to participate with a number of major world banks in a \$42m syndicated loan to a subsidiary of Sun Hung Kai Securities of Hong Kong. Not long before that the Bank of China, its 13 Peking-controlled sister banks in the Colony and three affiliated insurance companies launched their first fully-fledged finance company called the China Development Finance Company (Hong Kong).

Its task is not only to finance prospects in China such as industrial ventures in Shenzhen but also to achieve a familiarity and facility in the traditional activities of retail banking, foreign currency dealings and lending money locally. Moreover, although Western companies are still awaiting the first joint equity ventures in

China involving foreign participation, Peking-controlled interests in Hong Kong took the step last summer to enter into their first joint equity arrangement—a residential and commercial construction project in the New Territories—with Western groups. Eighty per cent of the project is held by Peking-controlled Kin Kwong Investment and Sun Company, two leading Hong Kong firms, and Jardine Matheson, holding 15 per cent and 5 per cent respectively.

Despite these indications of an escalating interaction on both sides of the border, however, a tripartite alliance from Peking, London and Hong Kong continues to shroud the overall status of the New Territories lease. Under this 1997 agreement the Chinese Imperial Government leased the New Territories to Britain for 99 years. Although the Communist Chinese regime has claimed to not recognise the 19th-century document the 1997 expiry date still triggers an occasional anxious thought among Western investors.

Even so, the increasingly permeable border lends more and more support to the philosophy of ignoring the lease. One of Hong Kong's leading optimists on this issue is Sir Lawrence Kadourie, chairman of China Light and Power, which began selling power to Guangdong earlier this year. He has repeatedly stressed that Hong Kong is really a suburb of China and offers this formula for the years between now and 1997: "A common-sense, imperceptible, slow merging of interests."

# Jardine, Matheson & Co., Ltd

## Part of Asia's History

In July 1832, during the Ching Dynasty, a small public notice in the Canton Register announced the formation of Jardine, Matheson & Co.

In England, William IV was on the Throne; in the United States, Andrew Jackson was in his first term as President; and in China these were the pre-Treaty days, ten years before the founding of Hong Kong.

But since that time, in almost a century and a half of trading, the Company name has remained unchanged, except for the addition of "Limited" in 1906 when the old firm became a private limited company.

Two years after Jardine, Matheson & Company had put up their sign in Canton, Parliament abolished the East India Company's monopoly of the China Trade. That same year Jardine made the first private shipment of tea to the United Kingdom and the pattern had been established, a pattern which was to see Jardine emerge as the greatest of all the Far East traders.

The scope of the Company's activities, and the areas in which it operates have progressed far beyond those early trading days. But Jardine have never lost the drive and initiative of their founders. Indeed, the history of Jardine is a history of firsts - from the first steamship to ply the Pearl River to the first Eurodollar

debenture issue by a Hong Kong company.

From the top of the 52-storey Connaught Centre, Jardine's Head Office now looks out over a Hong Kong which is almost unrecognizable from the "barren rock" where the original partners bought the first "lot" of land sold in 1841. That same year, Jardine moved their headquarters from Canton to Hong Kong, playing a major role in the founding of Hong Kong and, subsequently, in the City's emergence as one of the great trading centres of the world.

In 1848, Jardine bought the first land lot offered for sale to foreigners in Shanghai, and soon opened an office there. Branches in Foochow, Tientsin, and other major trading centres followed. In 1859, the first lot of land sold to foreigners in Yokohama, Japan, was purchased by Jardine and an office was established - followed by branches in Kobe and Nagasaki.

In the century which followed, much of the Group's enterprise centred on China, and later Hong Kong. Jardine's listing on the Hong Kong Stock Exchange in 1961 marked the beginning of public records of the Group's financial position - records which show steady and continuous growth.

In 1973, the Group doubled its net worth with two major acquisitions - Theo. H. Davies & Co., Ltd, an old established Hawaiian and Philippine trading company, and Reunion Properties

Co. Ltd in the United Kingdom.

1975 was another year of continued growth with the acquisition of Gammon (Hong Kong) Ltd; the purchase of 75 per cent of Zung Fu Company Ltd and 53 per cent of Rennie Consolidated Holdings Ltd.

1975 also marked Jardine's fifteenth year as a listed public company. The period since 1961 has seen the Group's net assets grow 21 times from HK\$108 million to HK\$2,316 million, net profit increase 3,648 per cent and adjusted earnings per stock unit multiply 25 times.

Since 1976 Jardine have acquired 40 per cent of the issued capital of Transporting and Trading Company Inc., a Liberian company with widespread interests, mainly in Saudi Arabia. Today Jardine are a major international organization, with

44,000 stockholders and 4,000 loan stockholders, employing over 50,000 people in more than 20 countries, and the Group's divisions, subsidiaries and associates provide almost every type of commercial service throughout Asia, the Pacific and Southern Africa.

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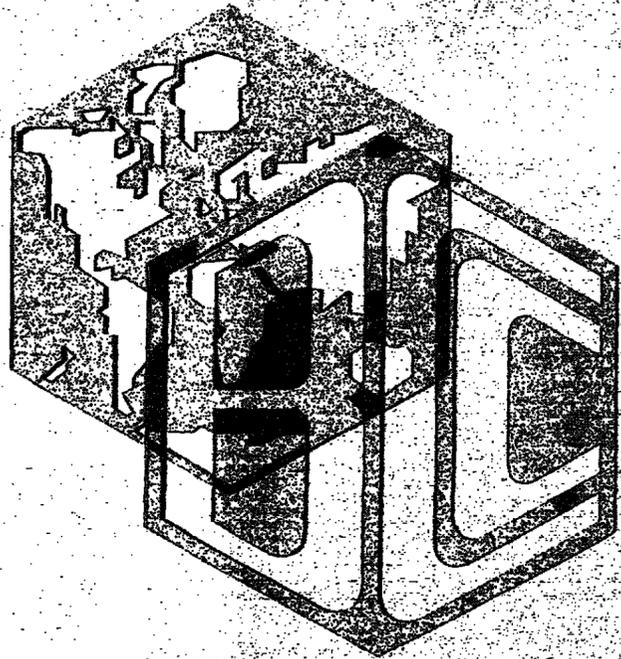
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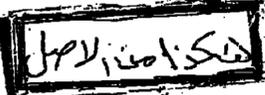
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هكوانم الأهل



# Moves to tackle trade deficit

HONG KONG's trade imbalance with Japan is considerably larger than Britain's and has been growing at least as fast. But the countries within which the two Asian countries conduct their relations is so different from that of UK-Japan relations that Hong Kong has only recently started to focus on its Japanese deficit as a serious problem.

Japan has been the No. 1 exporter to Hong Kong for most of the past decade, supplying it with essential industrial raw materials and with cars (as well as a portion of the equipment required for the Mass Transit scheme). Hong Kong sells textiles, toys, watches and other light industrial products to Japan, but has found the Japanese market far harder to penetrate than the markets of Europe and North America. As a result Japan ranks only fourth among Hong Kong's overseas customers, far behind the leading three (U.S., West Germany and Britain).

Hong Kong's bilateral deficit with Japan exceeded \$1bn in 1974 and passed the \$2.5bn level in 1978 (when Japan's exports were worth more than six times as much as its imports). Figures for the first four months of 1979 suggest that although Hong Kong exports have been growing fast, the deficit is still widening slightly. It could exceed \$2.8bn for the year as a whole if current trends continue.

## Imports

The Hong Kong Government's position on bilateral relations with Japan is that the deficit can and should be reduced but that artificially curbing back on Japanese imports is not the way to do it. This makes sense in view of Hong Kong's total dependence on trade as a way of life and on Japan as a source of raw materials for its industry. Since imports from Japan cannot be artificially reduced without damaging the local economy, efforts at reducing the trade imbalance must focus on the promotion of Hong Kong exports to Japan.

## RELATIONS WITH JAPAN

CHARLES SMITH

and this is precisely what the Colony has been trying to do harder than ever since the end of last year.

In November 1978, Hong Kong despatched a top level economic mission to Tokyo, led by the Governor and including the chairmen of many top local companies such as Jardine Matheson, the Hong Kong Bank and the World Wide Shipping group. The mission told its Japanese hosts of Hong Kong's concern at the trade imbalance problem and suggested that one way to solve it might be for Japanese industry to step up its investments in the Colony (on the theory that Japanese investments in neighbouring Asian countries have tended to generate exports from those countries to Japan).

## Imbalance

The Hong Kong Government's attempt to link investments with exports seems to have been questioned in Japan but its expressions of concern about the trade imbalance as such gained a sympathetic hearing. On the suggestion of the Japanese Foreign Minister, Mr. Sunao Sonoda, the two countries established a Hong Kong Japan Business Co-operation Committee late last year.

The committee met for the first time in March and is expected to father a series of sub-groups which will look at specific problems limiting access for Hong Kong products to the Japanese market. The level of Japanese membership of the committee (including presidents or chairmen of companies such as Toray, the Tokyu Group and Sumitomo Chemical) suggests that Japan at least wishes to appear to be taking a positive attitude towards the Hong Kong trade problem.

Hong Kong's big success in sales to Japan has been in the area of fur clothing (an achievement which has astonished the Colony's own exporters who never apparently made any special effort to develop the market). Its sales of non-fur clothing on the other hand have been extremely disappointing, both in relation to sales in Western markets and when compared with the sales to Japan of competitors such as Taiwan, Korea and (increasingly) mainly China.

Hong Kong's Government believes that this lack of success (which has left Hong Kong with a net deficit on its Japan textile trade) can be put down to the fact that Japan has only 20 or so textile investments in the Colony compared with the several hundred in Korea. In Japan the explanation more usually offered is that small Japanese textile trading houses which have close connections with opposite numbers in Korea and Taiwan simply do not happen to have the same links with textile producers in Hong Kong.

The attitude of Japanese investors towards Hong Kong appears to be that the cost of land in the colony is so high that only specialised types of investment are likely to be profitable. The types concerned have to be capable of being accommodated in the "flatbed" factories that make up much of Hong Kong's industrial area and should preferably also demand a high standard of skilled manual labour.

## Example

Watchmaking is the classic instance of such an industry and it is no accident that top Japanese watch manufacturers such as Seiko, do have a presence in Hong Kong. More "basic" types of electronics manufacture such as colour TV assembly are seen by the Japanese as being more suitably accommodated in Singapore, Taiwan or Korea.

Trade and investment are not the only links between Japan and Hong Kong. Japanese banks are well represented in the Hong Kong financial community and Hong Kong ranks as the third most important source of investment in Japanese securities (after the U.S. and Western Europe). Last but not least Japanese tourists account for roughly a quarter of all foreign visitors to Hong Kong. Trade, however, remains the key strand in the relationship and the one which stands in most need of adjustment.

A MIDNIGHT scramble up 60-ft towers made out of buns and bamboo scaffolding is the centrepiece of Hong Kong's most unusual festival. But only a handful of tourists watch the bizarre event, because it is not widely publicised and takes place on an island with virtually no accommodation for visitors and no late-night ferry service.

So, the colony's 2m visitors continue to miss such colourful events—and spend 64 per cent of their HK\$5,100m a year on shopping. The drawbacks are clear. Many of the goods purchased are imported, which must be taken into account when assessing the industry's real earnings. And shopping sprees are vulnerable to currency fluctuations, as was shown in 1977-78 when per capita shopping expenditure fell almost 10 per cent, as currencies of some major markets weakened against the Hong Kong dollar.

There is, of course, an element of swings and round-



Duty-free prices are a major attraction for overseas visitors. Above: Tourists admire jade carvings in a typical Chinese shop.

# The shops do best

## TOURISM

DANNY NELSON

abouts in this, for in the same year expenditure by Japanese tourists—the second largest group—rose as the yen appreciated against the Hong Kong dollar.

Jewellery tops the list of shopping items for all visitors, with HK\$618m (HK\$459m in 1977); followed by clothes, HK\$520m; watches and clocks, HK\$364m; cameras and optical goods, HK\$243m; and leather goods, HK\$219m.

Prices have risen rapidly in recent months (the shopping index rose 13.4 per cent in 1978) and, increasingly, visitors can be heard saying that prices are higher than at home. But Hong Kong continues to offer a wide range of goods in a

conveniently compact area, and the range is particularly important for tourists from South-East Asia, now the single largest source of visitors.

The South-East Asians, the biggest section of which are overseas Chinese, have their own expenditure patterns. For instance, they take tours even less than other groups (tours account for only 2.6 per cent of total tourist expenditure), they are predominantly male, slightly younger than other visitors and spend more of their money on entertainment and eating out. (They also have a bigger proportion of what Hong Kong's statistics show as "untraceable expenditure" which appears to embrace social

events, involving personal contact.)

Their rise to dominance in the industry has been confirmed this year, with South-East Asian arrivals showing a 44 per cent increase over first quarter of 1978 to 141,000. Japanese totalled 148,000, but that represents a decline of 1 per cent over the two quarters. The Japanese, however, remain by far the biggest spenders.

A by-product problem for the Tourist Association is the perennial difficulty of rudeness, especially among shopkeepers. This is a general problem, but it is particularly acute for South-East Asians because, for many Hong Kong Chinese, tourism is still equated with Americans, Europeans and Australians.

## Optimism

John Pain, HKTA executive director, says a recent campaign was the most successful yet, but even if his optimism is justified, there is still a long way to go.

The steady increase in visitors has meant a boom for the hotel industry with the occupancy rate in January-March running at 91 per cent. Several new establishments are under construction, but the maintenance of the recent growth rates in arrivals (17 per cent last year) would rapidly eat into the new capacity.

The spin-off from the growing number of visitors to China, one quarter of whom go through Hong Kong, should ensure a high rate of increase. There is a danger that as word of overcrowding spreads around, agents will ignore Hong Kong in favour of neighbouring capitals with rooms to spare.

The last big jump in the number of rooms was in 1973-1974, and the industry has been content to let occupancy rates rise since then. Estimates indicate an increase from 14,168 in 1978 to 21,267 in 1982. Forecasts are notoriously difficult in Hong Kong, however, because of the flexibility of the development companies.

At the end of last year, for instance, Hotel Federal, a local group, dropped plans for a hotel in favour of a commercial building because profits can be made in two or three years through selling an office block compared with between eight and 10 for operating a hotel.

At the time of the Hotel Federal announcement, it was reckoned that the cost of building a good class hotel room stood at \$50,000, excluding land costs at around \$1,500 a square foot.

In peak periods the situation is acute, there have been incidents of groups sleeping in hotel lobbies, and even in a hotel sauna.

Few other new tourist projects are in sight of completion, with the exception of the Sung Dynasty village, a living museum which could appeal to both Asian and European visitors and help the industry in its constant search for ways of increasing average length of stay (currently, 3.9 days).

The village has taken four years and HK\$15m to build. At HK\$70 (with lunch) and HK\$90 (snack), tours will not be cheap, but great care has been taken over authenticity—the intricate interior wood carving involved 100 men, about one quarter of all such craftsmen available in Hong Kong.

But the real crunch for the industry will come when the capacity of Hong Kong's only airport can be squeezed no further. This will occur in the mid-1980s, and if another airport is not in operation by then—either across the border in Canton or on Lantau Island—tourist arrivals are likely to be the first to be curbed.

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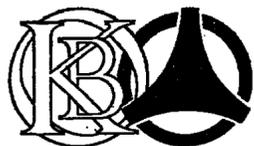
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# Attitudes have improved

## RELATIONS WITH BRITAIN

DAVID DODWELL

HONG KONG and Britain complain constantly about each other, but behind the bickering a very special relationship exists both at the level of trade and in political terms.

As Britain's leasehold on this tiny Colony shortens, so one single reality glares more starkly before the British and Hong Kong governments: Hong Kong stays British only so long as China wills it.

Hong Kong's Governor, Sir Murray MacLehose, recently acknowledged this fact: "With the consolidation of China as a great power and the withering of Britain's power in the Far East, it is inconceivable that this Colony should exist against China's will. Quite simply, Hong Kong continues to exist because China wants it to."

As Britain's colonial head in Hong Kong, Sir Murray has done a great deal to improve relations with China—and to convince the Chinese that their best interests are served by leaving Hong Kong free and prosperous.

Sir Murray's official visit to Peking in April was the climax to years of patient bridge building: such a visit would have been inconceivable 10 years ago.

Sir Murray's tenure as Governor has been extended three times, and he is now due to retire in April next year. A further extension is unlikely, and the British Government must be thinking hard about a successor.

Sir Murray will be a tough man to follow. He will be remembered not just for his "great leap forward" in relations with China, but as an excellent administrator and as the instigator of far-reaching social reforms. He has become renowned for his leading role in broadening public access to health services, better education facilities and improved public housing. He has pressed hard for a shorter working week, better working conditions and more sports and leisure facilities. He is also closely linked with firm action taken against corruption in Hong Kong. People mystically refer to his charisma—most call it "gravitas."

As for a successor, one option is certainly not open: he (or she) will not be local and will not be Chinese. Communist China has come to terms with the anachronism of British colonial control of Hong Kong, but any sign of a reversion to local Chinese rule will make its "laissez faire" attitude increasingly hard to adhere to. As one close aide to Sir Murray noted: "With Taiwan on the sidelines, China finds it extremely difficult to cope with the idea of two Chinas: the idea of three Chinas would be intolerable."

### Successor

Sir Murray is inevitably coy about possible successors, and it is probably fair to assume that the new Conservative Government in Britain has more pressing issues on its plate at the moment. By November, however, a new choice will be imminent.

Even now, there are certain broad requirements which make the list of possible successors very short: Hong Kong is no longer a small economy. With a total trade of about \$11.7bn in 1978, it is in the big league of world economies. So any new Governor will have to have a sound international reputation. He will have to be familiar with the affairs of East Asia, and have sound experience of China in particular. He will also have to follow in Sir Murray's steps as a man of "gravitas".

One anachronism which a new Governor will probably have to tackle is that of the colonial administration which still survives in Hong Kong. This still relies heavily on expatriate workers, mainly from Britain, who are in many cases widely resented by the local Chinese.

A significant expatriate workforce is justified on the grounds that the Communist Chinese would be unhappy to see too much political clout devolve to locals: again the fear of three Chinas rises to the surface.

But as an increasingly large proportion of Hong Kong's secondary and tertiary education, and as the British colonial service withers at the roots, so the case for employing expatriates rather than Chinese to perform many senior administrative jobs in government becomes increasingly flimsy. The perks that go to expatriates—mainly in the form of housing assistance—are increasingly resented when locals feel that they themselves could do the same jobs better.

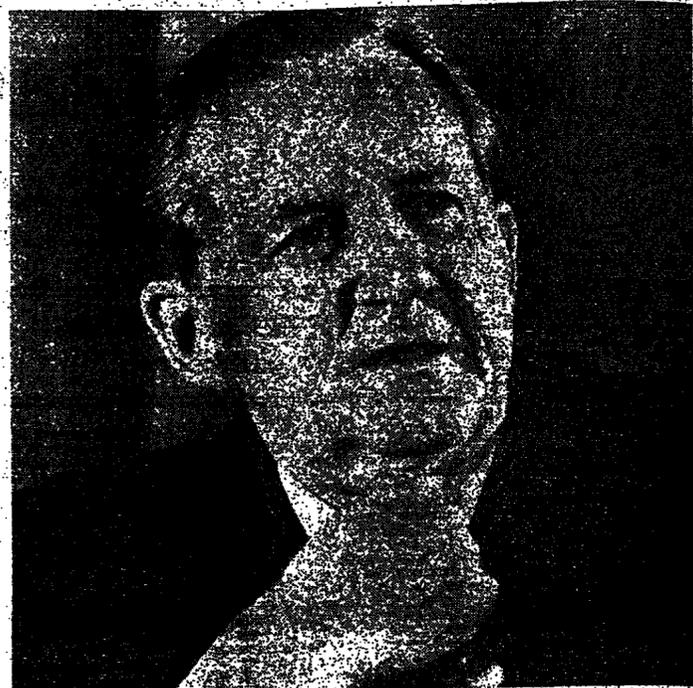
When most British people think of Hong Kong—and vice versa—they probably do not think of the political and colonial links, however: first and foremost they will think of trade. It was trading prospects which first attracted Britain to Hong Kong, and trading links still dominate today.

Britain is Hong Kong's third largest export market, behind the United States and West Germany. Britain imported HK\$3.87bn worth of Hong Kong exports in 1978—9.5 per cent of Hong Kong's total exports. Hong Kong is Britain's second largest market in Asia, behind Japan. This tiny colony of about 5m people imported British goods worth HK\$2.97bn in 1978—about 4.7 per cent of total imports.

But trade relations have soured in recent years. Hong Kongers suspect Britain as a prime mover behind the demands for protectionism inside the European Economic Community, while Britain's traders deplore Hong Kong's growing trade surplus with Britain and insist that the Hong Kong Government does more to redress the balance in bilateral trade.

It is true that the protectionist lobby is powerful in Britain—particularly in the textile industry which is so dear to the hearts of Hong Kong traders. It is also true that the British Government strongly pushed for global limits on the import of certain goods into the EEC. But beyond this, Britain's Senior Trade Commissioner in Hong Kong, Mr. Derek March, insists that Britain has been an active defendant of Hong Kong's trading interests. He argues that Hong Kong's aggrieved traders should be thankful that the British Government—along with other European governments—resisted so many of the demands made by the protectionist lobby at home.

In fact, Hong Kong's traders have not conspicuously suffered as a result of quotas imposed on exports to the EEC and the United States. The quotas applied to the quantity of items exported to the EEC, and not their value. So by improving quality, traders have been able to improve profit margins while the volume of exports has remained static. They have also circumvented quotas by expanding exports of goods not covered by them: for example, fur and leather garments—not restricted by any quotas—have been boom sectors



Sir Murray MacLehose, whose tenure of office as Governor General of Hong Kong has been extended three times, addresses a Press conference in London recently. As Britain's colonial head in Hong Kong, he has done a great deal to improve relations with China.

for exporters over the past year. So in 1978, the value of Hong Kong's exports to Britain rose by 28 per cent; the value of textile, cloth and yarn exports rose by 28 per cent. Neither figure implies that Hong Kong is suffering gravely as a result of protectionism.

Mr. March bluntly points out: "Hong Kong can't expect to be treated like a tiny colonial exporter any more. With an overall trade of HK\$11.7bn in 1978, it is a major international economy. In the first quarter of 1979, exports to Britain rose by over 80 per cent, while Hong Kong is now the 29th largest economy in the world. It can no longer expect to be treated with kid gloves."

### Complacent

Hong Kong's businessmen give short shrift to complaints that the Colony imports too few British products, they claim that British businessmen have for too long been complacent about the Hong Kong market, taking it very much for granted. Mr. David Jefferson, Hong Kong's Economic Services secretary, is blunt: "Quite frankly, the British attitude to trade with Hong Kong was quite disgraceful. They were just not trying very hard."

Mr. March accepts this criticism in large part—but claims that things have begun to change in the past two years. In this period, British exports to Hong Kong have leapt by 76 per cent, with British companies scooping three major contracts, worth around HK\$4bn. GEC is to supply a power generating plant to the Kowloon Electric Supply Company; Balfour Beatty is to build a transmission line for China Light and Power; and the Mass Transit Railway, due to start operation in October, will use British-built rolling stock.

Mr. March adds: "Only 4.5 per cent of Hong Kong's total imports come from Britain—and that's not good enough. More British businessmen should realise that Hong Kong is a straightforward market—and by that I don't mean easy. It is big by any standards, with no import controls, no exchange controls, with English as the business language. And what's more there's a great deal of sympathy for us British."

"I ask British businessmen when they last looked at the Hong Kong market. In 1958 total imports were just HK\$4.5bn. In 20 years they have grown to HK\$11.7bn. That means Hong Kong must be a market worth talking about."



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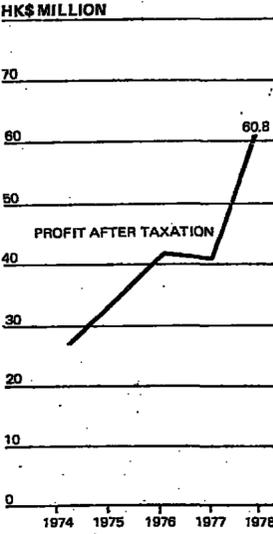
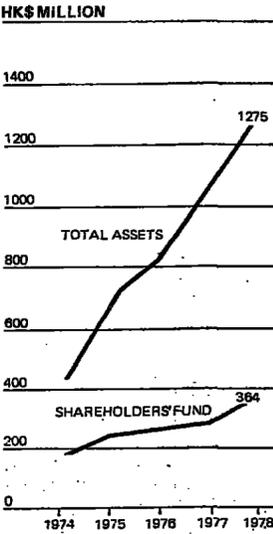


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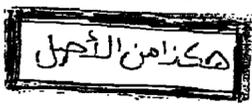
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HONG KONG VII

# Tighter regulations on money supply

AFTER SEVERAL years of relative quiet, the domestic banking scene in Hong Kong has recently been undergoing some sharp changes in a variety of directions.

There is a change in relationship between the banking industry and the Government, and one between the local banks led by the Hongkong and Shanghai Banking Corporation and the foreign banks. In the background is the outward-looking policy of China, where the consequences, if any, for the banking industry cannot yet be easily determined. The most important change has been that the Government has decided against its will but in accordance with its better judgment, that money is too important a matter to be left entirely to bankers. From May last the Government acquired for the first time powers which would effectively allow it to exercise a strong direct influence on money supply. It amended the Banking Ordinance, the law which governs bank operations, to redefine its own short-term deposits (up to seven days) with the banks as interbank deposits requiring 100 per cent liquidity cover rather than ordinary deposits, requiring only 25 per cent cover.

This apparently minor technical change was actually a radical step towards using the Banking Ordinance not just as a means of prudent supervision of individual banks but of influencing the rate of growth of money supply and the behaviour of interest rates. Government deposits currently account for some 2 per cent of the banks' Hong Kong dollar deposits totalling HK\$70bn. Shifting between long and short term can have a powerful impact on the need for liquidity of the banking system in general and thus its ability to increase credit. The Government took this power because it came to realise that it had some responsibility for trying to ensure a degree of monetary stability—but that mere exhortation to the banks to do what the Government deemed desirable was not sufficient.

## Chided

Early in the second half of 1978 the Government began to get worried about the continuing rapid growth of credit, which it considered was leading to overheating of the economy and weakening of the balance of payments. In September, the Financial

## BANKING PHILIP BOWRING

Secretary, Mr. Philip Haddon-Cave, publicly chided the banks for not raising interest rates to cool off demand, which was especially strong in the property sector. But nothing happened. Upward movement in rates only started after the Government moved to neutralise part of its own Hong Kong dollar balances through a swap agreement, by which it acquired foreign assets without having to depress further the exchange rate by selling HK dollars. Thus began a dramatic escalation in interest rates. By May the agreed best lending rate of the two leading banks had reached a record 13 per cent, more than double what it had been just six months before.

The underlying reason for the rise was not difficult to find. Bank credit for the first quarter of 1979 has consistently been more than 40 per cent higher than a year previously.

Loans grew 3.7 per cent in April to HK\$60.1bn, where they are 46 per cent above the same month in 1978. On an annualised basis the rate of growth is still far too high and in late June the chairman of the Exchange Banks Association urged members to show caution in new lending. However, they made such substantial loan commitments last year that rapid growth may continue until earlier approvals have been drawn down. The massive trade deficit which has been a major consequence of the money growth spurred a run on the Hong Kong dollar in April, forcing a further upward rise in interest rates. At one time the local currency collapsed to HK\$3.90 to the U.S. dollar and its trade-weighted index to 90 (December, 1971 = 100), before recovering to around HK\$5.09 at the end of June, with the index at 90. Two years ago the index was at 115.

Hong Kong's old system of automatic adjustment was found not to be working under a floating exchange rate system. Under a fixed rate a current account deficit contracted which it considered was leading to overheating of the economy and weakening of the balance of payments. The Government rejects the notion that a central bank is

needed to control the situation. But it is gradually expanding the role of the monetary affairs branch which manages the Government's very large reserve funds and thus can be a major influence on both money supply and the exchange rate.

Credit in fact has expanded very much faster than money supply. Bank deposits increased only 25 per cent in the year to end April, when the loans-to-deposits ratio reached a near record 82.2 per cent against 90.9 per cent a year earlier. Average liquidity, however, between the two periods remained fairly steady in the 45 to 46 per cent range. The reason for this apparent discrepancy is that liquidity can readily be provided through offshore interbank transactions.

Meanwhile there was substantial capital inflow through the banking system, helping to sustain lending and finance. The large current account deficit (the trade deficit in 1978 was a record HK\$9bn and is forecast to hit HK\$12bn this year) apparent net foreign assets of Hong Kong banks fell from HK\$17bn to HK\$15bn over the year to March last.

BANKING STATISTICS (HK\$bn)		
	March 1978	March 1979
Demand deposits	12.4	15.5
Time deposits	21.8	30.1
Savings deposits	21.8	24.3
Due to banks abroad	29.2	57.9
Other liabilities	10.9	16.7
Loans in Hong Kong	39.8	57.9
Loans abroad	18.4	18.2
Due from banks abroad	37.7	49.5
Other assets	10.1	17.7

The lending spree was probably helped along by the liberalisation of the issue of banking licences. Until a year ago only one new licence had been issued since the 1965 banking crisis. But the Government changed its policy to allow in, on a selective basis, big foreign banks. Some 30 new licences have been granted so far. Many have gone to banks which previously had finance companies and representative offices. Most of the newcomers are not especially interested in retail business.

But their arrival, coinciding as it has with euphoria over trade and finance with China, helped swell Hong Kong dollar lending. It also increased demand for funds from the interbank market. As a result the nature and role of the interbank market, not for the first time, became a bone of contention between local and foreign banks.

For much of the past year interest rates in the interbank market have been above the best lending rate. This has seriously squeezed the profits of those banks which have relied on the interbank market for their funding. They have tended to claim that local banks have been deliberately squeezing them. The locals reply that the foreigner should make more effort to establish larger deposits bases through branch networks. They say the local rate setting cartel aims to try to keep rates to the public reasonably stable and that interbank rates are naturally more volatile for long periods. In 1976 and 1977, the locals argue, interbank rates were very low.

## Merits

Whatever the merits of the various claims, shortage of interbank funds is driving the foreign banks into new efforts to raise HK dollars. Most recently, Citibank launched the first bankers acceptances seen in Hong Kong. They are denominated in units of HK\$10,000, which makes them accessible to smaller investors. They have a three-month maturity and for technical reasons do not suffer interest tax. Interest is pitched higher than on time deposits but below

either interbank rate or the rates offered by finance companies.

There have also been a number of issues of Certificates of Deposit (CDs) of various sorts—some fixed rate, some floating rate, some linked to best lending rate, others following finance company rates and, most recently, others linked to high-flying interbank rates. But the diversity of the instruments has not helped the development of a secondary market in them.

The position is complicated by the diverse group of operations which come under the deposit-taking heading—consumer and mortgage finance, share dealing and discounting of post-dated cheques.

Most likely the ratios will be linked to the average maturity of domestic deposit. (They will not affect the activity of the major banks, banks which use Hong Kong deposit-taking companies as channels for international syndicated loans.) The key question, however, may not be the levels of liquidity required but the definition of that liquidity. If it is made broader than that applying to banks—for example, to include negotiable CDs or bank accepted bills—it would open up new possibilities for development of the local money market.

Official sources suggest that the deposit-taking companies—of which there are some 230—may not be as badly in need of supervision as some jealous bankers have suggested. There was particular concern about them late last year when there was a run on the largest of them all, Sun Hung Kai Finance (SHKF), a subsidiary of Sun Hung Kai Securities, a diversified financial group which is inter alia the largest stockbroker in Hong Kong. SHK lost more than 20 per cent of its 600m deposits in a few days. Big standby lines of credit had to be provided by the Hong Kong and Shanghai Bank and Paribas, the French group which earlier in the year bought a minority stake in SHK, and the Financial Secretary had to put the Government's own imprimatur on SHK's solvency.

There were fears at the time of a snowballing collapse of share and property prices leading to big problems for the financial sector generally. That might yet happen. But in fact there are few finance companies which actively bid for public deposits. Most of those which do are subsidiaries of licensed banks.

## Loans

The total amount loaned in Hong Kong by the deposit-taking companies at end-March last was only HK\$10.3bn, compared with their total assets of HK\$54.9bn.

Although no comparative figures are available before 1979 it seems likely that the deposit-taking companies' overall business may stagnate as offshore business is switched into branch operations following the grant of licences to big foreign banks.

The choice between lending through a branch of subsidiary is largely determined by the lending institution's worldwide tax and administrative considerations. What is not clear is whether there is much advantage one way or the other relative to Hong Kong's own new rules on taxation of profits from interest on offshore transactions.

When first introduced in the 1978 budget the new definitions produced howls of outrage from many bankers and suggestions that business would go elsewhere. Though the Inland Revenue has issued guidelines on the tax there is still some uncertainty as to its practical application.

Clearly it has not caused any exodus of bankers. But there has been some reluctance to put loans through the books of a Hong Kong branch. Loans abroad by Hong Kong banks fell from HK\$19.6bn in February 1978, the month of the tax announcement, to HK\$15.8bn in August. They have started rising again and went back to HK\$18.7bn in April. Any worries foreign bankers may have had about the wisdom of operating from Hong Kong because of the tax have been largely overshadowed by the optimism over opportunities for lending to China.

Meanwhile, the irony of the situation is that while China is gearing up to borrow billions of dollars it was the Bank of China which in April cut interest rates just at the time the Hong Kong dollar was under greatest pressure.

Another recent innovation in the money market includes short-term paper issued by the Government-owned Mass Transit Railway Corporation.

But the Government itself remains unwilling to issue its own paper as a means—not of borrowing, which it does not need—but of providing a liquid asset instrument for the local money market. At present almost the only available Hong Kong dollar liquid asset other than cash is interbank deposits. It is possible, however, that that situation could change before long.

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HONG KONG VIII

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HONG KONG'S traders seem to thrive on uncertainty—but it has taken a cool nerve to cope with the uncertainties of the past 12 months.

Accelerating inflation, rising wage costs and an increasing appetite for domestic consumption has prompted no less than the Financial Secretary Philip Haddad-Cave to warn gravely that the economy is "overheating." And at the root of it all is supposed to be a deteriorating visible trade balance.

The faint of heart also bite their nails over protectionist murmurs from Europe and the U.S., and over a recession which is expected in the U.S. as energy prices soar once again. They point out that Hong Kong with no domestic market to support it, depends absolutely on thriving international trade for its wealth: if the world economy catches a cold, Hong Kong could die of pneumonia.

It is possible to take a completely different and much more optimistic perspective, however. While it is true that imports rose in 1978 by 29 per cent, the greater part of this increase was in machinery and raw materials needed for export industry—not in consumer items that would lead to higher inflation. At the same time, exports grew by 16 per cent—a growth rate that must be envied by many governments in the west.

Export growth is even more impressive when broken down into its component sectors. Textile exports—now subject to strictly applied quotas—increased by 7 per cent in value in 1978, while figures for the early part of 1979 imply a growth rate in excess of 40 per cent.

The United Kingdom—Hong Kong's third largest export market—imported 12 per cent more textiles in spite of intense protectionist undercurrents in the domestic textile industry, and indications for the early part of 1979 imply a startling 80 per

cent increase in the value of textile imports.

Exports of toys, games and sporting equipment, worth HK\$772m in the first four months of 1978, have risen by 49 per cent to HK\$1,165m in the same period this year. Watch and clock exports have risen by 55 per cent to HK\$995m in the same period.

The widely mooted recession in the U.S. is yet to manifest itself in Hong Kong's export figures: they rose by 11.6 per cent in 1978. David Jefferson, Hong Kong's Economic Services Secretary, claims that trade with the U.S. looks buoyant, at least until the autumn, and there is as yet no way of telling what will happen beyond then.

Benefits

Optimists also point to the benefits that are likely to come Hong Kong's way as China opens up to trade with the world: an estimated 30,000 businessmen passed through Hong Kong on their way to do business at the Canton Fair—and many will use Hong Kong as an operational base for trade inside China. Similarly, the U.S.-China trade accord signed by U.S. Commerce Secretary Juanita Kreps in Peking and Canton in May is likely to bring a substantial share of business Hong Kong's way—even if it is only used as a commercial and financial base for operations inside China.

Hong Kong's traders are right, however, to be cautious about the likely spin-off from trade with China. Worries over certain developments inside the Hong Kong economy are also justified: acute labour shortages have resulted in rapidly rising wage costs—which in turn have seriously eroded Hong Kong's competitive position in relation to adversaries like South Korea and Taiwan.

The shadow of protectionism also looms large over Hong Kong exporters: they are themselves dogmatically committed

to the virtues of free trade and resent protectionism as a matter of principle. They feel that Western producers, jealous of Hong Kong's trading success, are unable to compete in a free market, prefer to hoist tariff walls rather than reorganise their own less efficient industries.

Hong Kong's exporters are particularly suspicious of Britain's role in the erection of tariff walls around the EEC: many believe that British trade officials acted as "agents provocateurs" inside the EEC, using the cloak of the EEC trade policy to disguise Britain's own urgent need to protect certain ailing sectors of industry—particularly textiles.

They also resent what they feel is growing British pressure to address the imbalances in bilateral trade (Hong Kong's trade surplus with the UK was HK\$18m in 1978 out of a total trade of HK\$8.99bn). The U.S., which ran a HK\$7.6bn deficit on visible trade with Hong Kong in 1978, seems much more sanguine about the imbalance.

Despite Hong Kong's protests, figures already quoted show that its exporters have successfully circumvented the constraints imposed on them in the form of quotas. The EEC put an upper limit on the number of cotton shirts and dresses (for example) that they could export to the Community. So Hong Kong traders simply raised the quality of the shirts and dresses they exported, boosting income on each item exported. They also diversified into fur and leather garments—because neither fur nor leather is subject to any quota.

Quotas imposed by the U.S. were attacked with similar panache, but it seems the end result will be that fresh quotas will be introduced: leather products, particularly shoes, may be next to feel curbs. The U.S. Government has advised the Hong Kong Government that quotas are inevitable unless the industry accepts self-imposed restraints.

In the face of these trading restraints, Hong Kong businessmen have begun to look seriously at new markets—particularly in Asia. The most tantalising unknown here is of course China.

The pace of China's modernisation is still uncertain—as is the extent to which the Chinese will draw upon foreign expertise and resources to achieve its newly defined economic goals. No matter what the outcome, the impact on Hong Kong can only be guessed at.

Hong Kong has always been indispensable to China—and vice versa. For China, Hong

Kong is a sort of AC-DC converter, providing a medium through which its socialist economy can "plug in" to the capitalist world outside. China's "undercover" business in Hong Kong earns Chairman Hua Guofang's Government around US\$3.4bn in foreign exchange every year.

It also offers socialist China a laboratory where it can watch capitalist enterprise in operation and can pick up those tricks of the capitalist trade needed for its own development. Japanese and U.S. contractors are known to have offered rock bottom prices to win project work in Hong Kong—particularly in the construction industry. This is because they know the Chinese will be able to see their equipment or technology at work and may be sufficiently impressed to order for themselves.

For Hong Kong, China provides food. Hong Kong's food bill in 1978 was HK\$3.2bn—and most of that came from China. China exports more to Hong Kong than even the U.S. Only the Japanese export more.

China's dramatic "four modernisations" plans have opened up two new areas of opportunity for Hong Kong—joint ventures and tourism.

Pragmatic

Both subjects were discussed with the Chinese by Sir Murray MacLehose, Hong Kong's widely respected governor, when he blazed a historic trail through Canton to Peking in April. On both counts, Sir Murray returned optimistic: the ever pragmatic Peking Government recognises that Hong Kong is most valuable to it while it is prospering, and seemed keen to point western businessmen through Hong Kong if they want to do business with the mainland.

A close aide to the Governor explained: "The thrust of the Chinese government is quite clear: they need Hong Kong. It was not that they love Hong Kong—they were quite honest about that. But they wanted people to have confidence in the future of Hong Kong because that served their best interests."

Jimmy McGregor, director of Hong Kong's Chamber of Commerce, claims that 400 joint equity ventures have been established in China or are close to completion. Many of these have been drawn up in Hong Kong by local businessmen, and many are set in the Shenzhen region in Hong Kong's immediate hinterland. The spin-off here for Hong Kong's trade could be immense.

Tourism could also be a big money spinner. The China Travel Bureau in Hong Kong has found enormous demand for visits to China. Most of the visitors are American or Australian, and all have large sums of foreign exchange to spend. Potentially just as interesting is the development of the Hong Kong hinterland as a holiday playground for the Colony's increasingly affluent Chinese population. More than 750,000 Hong Kong Chinese visited their families in Canton every year, the Spring Festival in February and many more of Hong Kong's 5m Chinese might be tempted by cheap holidays into the mainland. At present, anyone wanting to get away from the crowded Colony must travel to Singapore, the Philippines, or even further afield.

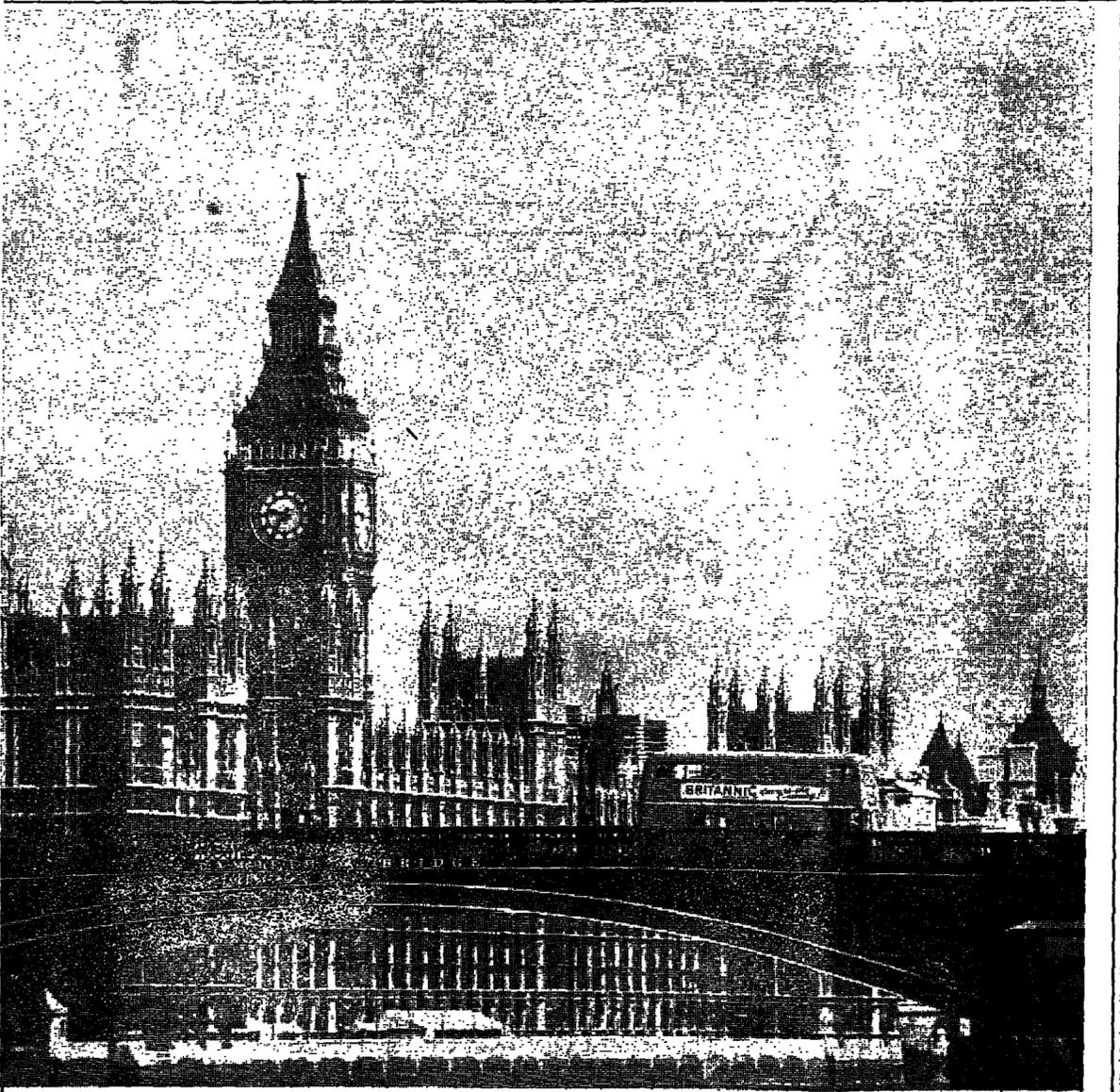
Some argue that the development of the Chinese mainland may undermine industries that have been the backbone of the Hong Kong economy—like textiles and low technology electronics. But as Hong Kong's economy becomes more sophisticated, so this fear seems less realistic. What is good for China is likely to be equally good for Hong Kong.

The second—and most enigmatic Asian trading partner is Japan. The balance of trade between the two countries is so dramatically in Japan's favour that serious worries have been voiced by top Hong Kong trade officials. In 1978, Japan exported to Hong Kong goods worth HK\$1.4bn—but imported just HK\$1.35bn in return. Between 1977 and 1978 Japan boosted its exports to Hong Kong by HK\$4.3bn—more than twice Hong Kong's total exports to Japan.

Hong Kong's worries were clearly put by David Jordan, director of the Trade, Industry and Commerce department. "We don't expect our trade with Japan ever to be in balance. But it seems very odd that we can't compete in Japan against countries we compete effectively with in other parts of the world. Japan Inc. seems so tied up."

Trade leaders think there is a close link between the level of Japanese investment in a country and the amount it imports from that country. So the current strategy is to attract as much Japanese investment as possible and hope that a better trade balance results.

One other aspect of Hong Kong's trade has so far not been mentioned—but has become a cornerstone. That is re-exports. These were worth HK\$13.2bn in 1978—up by 34 per cent on 1977. The rate of growth in the early part of 1979 has been even more rapid—about 59 per cent. It is interesting to note that while Japan still ranks as the foremost re-export market, taking goods worth HK\$2.5bn in 1978, China has leapt up the ranking during the early part of 1979. Re-exports to China soared from a negligible HK\$23m by 322 per cent to HK\$106m—implying an annual total of more than HK\$1.2bn. But perhaps it is too early to read anything too significant into this trend.



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Container chaos

SHIPPING
GEORGE LAURIAT

HONG KONG is South-east Asia's most complete shipping centre, encompassing the traditional regional trade, China shipping, the container port and international shipping community composed of brokers, bankers, lawyers and some of the world's largest shipowners.

During 1978 the port had what one liner man called a "reasonable year"—meaning that ocean-going cargo movements were up slightly to 6.72m tons as compared with 6.3m tons in 1977 and that there were no crises of the magnitude of Japan Line's near collapse which has the colony's shipowners losing sleep.

In the past five years the container port has become the most important sector of the port. During 1978, 501,464 full teus (20-foot equivalents) accounting for 4.5m tons were discharged and another 519,326 loaded with 3.87m tons of cargo. These figures were marginally down on 1977 and it is likely that 1979 figures will be just slightly ahead of the mark.

The importance of containerisation is difficult to underestimate—Hong Kong is part of the light industrial goods belt stretching from Singapore, Hongkong, Taiwan and ending in South Korea and Japan. The box is ideally suited to Hong Kong's cargoes and it really is the only effective way for them to reach their main destinations in Europe and the United States.

However, conferences on the subject have proved continually to be a problem—with the Far Eastern Freight Conference's monopolistic practices and the chaos exhibited by the agreements governing the Pacific routes in short the extremes in conference practices. Shipper's Council disputes with the FEFC over freight rises are as common as Mohammed Ali's retirement announcements and the "consultations" between shippers and conferences are seen far from being bargaining sessions.

It has long been a theory in the expatriate shipping community that as soon as China opened up, Hong Kong's importance as an extra port in South China and as a commercial centre would wane. With U.S.

recognition of China and the "four modernisations" economic programme, China has begun the long and labourious process of pecking its way out of its revolutionary shell.

Hong Kong's role in this process has become more clearly defined over the year and its role in shipping is even more important than previously. The Chinese have begun building a large ship repair yard on Tsing Yi Island (industrial area) which will serve as a repair centre for the numerous Chinese ships that are repaired and fitted out for service in Hong Kong.

Although Hong Kong has always been the base for the "offshore" Peking-controlled shipping companies, it appears that these companies, at least in the short run, will increase in importance. China Steam Navigation is the senior offshore shipping company acting to coordinate the dozen smaller companies that operate with varying degrees of independence in Hong Kong and Macao. The most active company is Ocean Tramping which buys most of the secondhand vessels and fits them out for "sale" to China Ocean Shipping Corporation, the national flag carrier.

Perhaps the most interesting development for local shippers is that China has been seeking out more local (Chinese) shipping expertise and that with the development of containerisation in China, some local lines are likely to get a larger slice of the movements.

The regional trade, once the strong point of Hong Kong's shipping community, has long been falling off as a result of larger national fleets and formal feeder type services. General cargo vessels still make a majority of the calls in Hong Kong but their importance had been diminished—though this

could change if charter rates strengthened over the next year.

The international shipping community with a membership that included the world's largest shipowner, Sir Y. K. Pao, his rival C. Y. Tung (approximately No. 6 in the world) and smaller companies such as Wah Kwong Shipping, P. S. Lee, and International Maritime Carriers, has great influence in world shipping.

Hong Kong's international shipping was built largely as a result of the "Shikumen" or tie-in arrangements with the larger Japanese shipping companies such as Japan Line or Sanko.

However, after the near collapse of Japan Line it was obvious that the Shikumen era was over and that owners would have to find a new investment mechanism. Recently, Hong Kong companies have been buying European second-hand tonnage (some of it on charter-back arrangements) which prompted one large owner to equip at a Norwegian meeting that "Hong Kong is the salvation of Norwegian shipping."

Hong Kong investment does not represent the salvation of anyone's shipping—but the Community is for the first time taking an active role in international shipping organisations—Y. K. Pao is the present president of Intertrans.

Hong Kong owners seem less keen now to invest in European second-hand tonnage, on some long-term arrangements and have been making an effort to get into more joint ventures with developing countries. Another widely pursued tactic is buying enough secondhand tonnage to keep the fleet relatively efficient in anticipation of a market turn which many owners—although not their bankers—feel will happen in 1980.

هكازمن الأهل

# Time gap bridged

IN THE early hours of the British morning, one group of Hong Kong commodity dealers is making the world price that European dealers are eager to learn even before breakfast, while another group could be thought to be as dozing as the Liverpool cotton traders and Paris sugar merchants who are sound asleep in their beds.

The local Kam Ngan gold market has shed its image as a trade follower whose only importance was the future it turned over. Increasingly over the past four years Hong Kong has established itself as an integral part of the world's 24-hour gold market, where trading never stops. Hong Kong bridges the gap between the close of the North American day and the start of the European session some seven hours later.

To traders on the two-year-old Hong Kong Commodity Exchange, the daily turnover worth currently nearly US\$ 300m and the eminence of the 69-year-old Kam Ngan are mouth-watering. To say the cotton and sugar markets are quiet, as the official report often records is a vast understatement—dead would be closer to the truth. "I said one commodity trader who spends most of his day reading the newspaper and dealing with correspondence, not with cotton futures. In some weeks no business is done in either market and the future of the exchange is now causing great concern to the floor traders.

Insiders reckon there is only enough money to last another year before the exchange will have to impose fees to meet running costs. Traders are known to have told their head offices outside Hong Kong that they can write off their \$HK100,000 rest money. No return is in sight. Faced with the not unusual spectre for new markets of little interest, the exchange committee has one final hope—gold. What has made Hong Kong a world centre, ranking after only London, Zurich and New York in the gold spot market, the committee hopes can be repeated with the same success in the increasingly popular gold futures market, which in 1978 alone rose from eighth to third place in the volume of commodity futures traded in the U.S.

Hopes for salvaging a future for the Hong Kong commodity market seem likely to be determined not by traditional market forces, but by personal and vested interests. Understandably the Kam Ngan fears it will lose some of its profitable gold business should a futures market also trade the precious metal, so beloved by Chinese over the centuries as a hedge against both economic and political instability. The vice-chairman of the Commodity Exchange, Mr. Woo Hon Fat, is also the powerful chairman of the highly successful Kam Ngan exchange. Known as Hong Kong's statesman for gold, Mr. Woo is widely respected for his efforts to drum up international interest in the exchange: ever South Africa has feted him as a guest of honour. Nothing can affect the success of the market, which still conducts its business in

## COMMODITIES

HUGH PEYMAN

Chinese dialects and trades its unique spot contracts, which can be rolled over indefinitely giving a de facto quasi futures contract denominated in Hong Kong dollars and measured in traditional taels (one tael equals 1.191 ounces).

But Mr. Woo has his enemies, and his market is criticised for wanting to monopolise the profitable gold trading. His opponents, and the proponents of a gold futures market, argue that the Kam Ngan has nothing to fear from the creation of another market. They say it will complement the spot market and stimulate even greater interest in the metal. But the very traditional members of the Kam Ngan are not convinced by these arguments, and seem determined to hold on to their privilege of dominating gold trading. Many of the neutral parties in the middle of this dispute—the international bullion dealers representing almost all the major European and North American traders—feel that there is no need for another market.

Formal application for the opening of a gold futures market has not yet been sought from the Government, but supporters of the idea say it will only be a matter of months before Hong Kong adds another string to its trading bow. Quite rightly, defenders of the scheme say gold

futures is the strongest market yet to be suggested for Hong Kong. They are also correct in saying it is too soon to dismiss the viability of the sugar and cotton markets. A devastating hurricane had to criss-cross Cuba five times before the London sugar market took off, after years of lethargy. But observers note that local investors here are unprepared to wait much longer for the markets to prove themselves. Failure so far has been due to a combination of factors, some uniquely local and some that would apply anywhere in the world.

## Virtues

The cotton futures market has failed largely because the all-powerful Shanghai-based cotton spinners were not sufficiently consulted at the outset. The one group that could give the market substantial volume has boycotted the market operated by their "country cousins" from Kwantung and continue to buy in the open market when they think the time is right. The virtues of hedging future deliveries are unappreciated by the group that even officials of the Commodity Exchange acknowledge has done very well by relying on its own judgment.

The market did not open at a propitious time for local in-

vestors. They were faced with a permanent downturn for half a year, which could be profitable to seasoned operators, but was a costly introduction for most new investors, who would have welcomed a market surging on a bull run.

One failure that has attracted little attention and has caused its organisers no worry is the Kam Ngan's silver market, which resumed trading last summer for the first time since the Japanese occupation of Hong Kong in 1941. An unnecessarily cumbersome delivery contract resulted in the initiative being still-born, but with ever increasing interest in the barometer of financial and political anxiety, gold traders have had no cause to complain about this minor failure.

But dealers on the futures market will be desperately anxious that their prayers are answered and that gold will soon be their saviour, for at the moment the futures market has earned the reputation of being a loser, and that is a tag which could be difficult to shrug off if gold fails to be the solution to its problems.

Hope for the future derives from a simple statistic: at least 10 to 15 per cent of North American gold futures turnover comes from Hong Kong. But such thinking could just be too simplistic. Asia consumes 30 per cent of the world's cotton, but this fact has not made the Hong Kong cotton market a runaway success. The question remains, can the Hong Kong Commodity Exchange cash in on the Chinese hedge against inflation and instability and so widen the service of the Colony's trading community?

# Merger deadline

BEFORE THE end of the current session of the Hong Kong Executive Council, on August 1, the Government is expected to set a deadline for the merger of the Colony's four stock exchanges into one. This should quicken the so far snail-like pace toward voluntary merger, since it is widely expected that the deadline will be January 1, 1980.

Meeting such a deadline is certain to be traumatic given the obvious reluctance of the four exchanges to merge, a reluctance which has led to a great deal of foot-dragging on their part since the Government began pushing for a merger early in 1977. Short of a liquidation of the four existing institutions and the formation of one single new body, it is difficult to see how their differences can be reconciled and practical problems of accommodation overcome.

Outsiders would be justified in thinking it extravagant and rather self-indulgent for Hong Kong to boast four stock exchanges—the Hong Kong Stock Exchange, the Far East

## STOCK EXCHANGE

ANTHONY ROWLEY

Exchange, the Kowloon Exchange and the Kam Ngan Exchange—when much bigger capital market centres elsewhere support only one.

This quadripartite structure is, however, partly a legacy of the great stock market boom of 1972-73, which brought some of the exchanges to birth and have spawned more had not securities legislation been brought in outlawing further stock exchanges—just when a fifth was about to be formed.

It is also a reflection of the fact that enthusiasm for share dealing in Hong Kong can reach almost hysterical proportions at times, as shown by the fact that turnover reached a combined several billion Hong Kong dollars a day in the boom seven years ago. Betting at Hong Kong's two racetracks is also said to greatly exceed that on British courses—another manifestation of the Colony's gambling mania.

Even so, few people inside or outside the securities industry here would argue that the present four stock exchanges, with their combined membership of just over 1,000, are justified by turnover levels, which now represent only a fraction of the 1972-73 levels, and which did not rise much above HK\$ 300m a day during the mid-boom last year.

Whether rationalisation needs to go as far as proposed by the Financial Secretary, Mr. Philip Haddon-Cave—principal advocate of the one exchange structure—is not, however, something upon which there is equal agreement.

## Step

There are plans in existence already for the Far East and Kowloon exchanges to share trading floors as a first step towards closer union, and possibly full merger. The Kam Ngan and Hong Kong exchanges are expected to follow suit, so that eventually the existing exchanges should be operating on two instead of four floors.

Many brokers argue that this partial merger of the four exchanges effectively into two units is as far as rationalisation needs to go, partially if the initial links develop into full mergers. Given inter-exchange trading, which exists in Hong Kong already, and the unification of trading and listing rules which is planned, the four exchanges will be as one anyway, the brokers argue.

Mr. Haddon-Cave has indicated, however, that nothing short of one exchange will satisfy the official desire for rationalisation. In his budget speech earlier this year he complained there had been "no tangible evidence" of voluntary unification.

In the circumstances, the Securities Commission (the official watchdog of the securities industry) has advised that legislation to bring about

unification, formulated as far as possible with the advice and agreement of the stock exchanges, should be introduced; and the Executive Council has now advised that such legislation should be drafted. Accordingly, a bill will be introduced into this council later this session," he said.

The Government has argued that a merger of the four exchanges would benefit shareholders in listed companies and brokers as well as enabling the regulatory authorities to administer a less erratic market. It would also eliminate difference in trading and listing practices.

But brokers remain sceptical of the cost benefits which Mr. Haddon-Cave has pointed to in justification of his pressure for a merger. The more wealthy exchanges, such as the Hong Kong exchange, which derives a good deal of its income from investments, foresee a substantial leakage of capital from the system in the event of existing exchanges liquidating after the formation of a single new one, and thus high costs for those brokers who choose to become members of the new exchange.

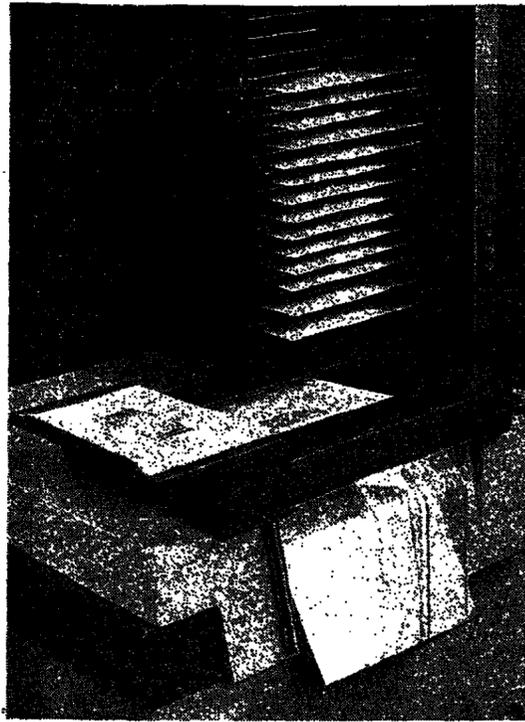
Even so, members of the Hong Kong stock exchange argued in discussions last month with securities commissioner Usdean McInnes that unification should be brought about through liquidation of the existing exchanges. They also urged the introduction of a high admission fee for membership of the new exchange in order to encourage only professional brokers to join.

The Hong Kong exchange members argued at this meeting that full unification should wait until it was possible for the new single exchange to carry out trading on one floor.

The Securities Commission is currently drafting papers on various procedural obstacles to be overcome on the path towards unification—and possible solutions. These papers will form the basis of submissions to the Government before legislation is introduced.

As an alternative to the view that membership fees should be pitched high so as to encourage only "professional" brokers to join the new exchange, a proposal being studied is that there should be two classes of membership—full membership and associate membership, the latter carrying trading rights but not full membership rights. This is meant to provide for smaller brokers who do not do such business outside peak trading phases. This might also protect the position of such people as the lawyers and accountants who bought seats on the exchanges before the Securities Ordinance 1974 forbade them to do so, but it would hardly enhance the professional image of the Hong Kong stock market overseas. One further suggestion being examined is for a third class of member: overseas brokers.

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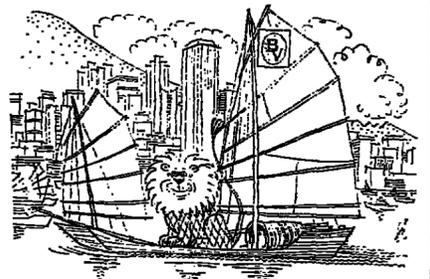
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# Pressure from new economic forces

THE APPOINTMENT of a Government committee to advise Hong Kong's business barons on future industrial diversification may seem to be an attempt to teach grandmothers to suck eggs. But many of the colony's aggressively independent industrialists are welcoming this Government "interference" as they become increasingly nervous about economic forces at play which they alone cannot handle.

Few countries in the world are so dogmatically committed to the principles of free trade. Along with that commitment goes an extreme reluctance to allow any Government role in the industrial process. The ardent belief among Hong Kong industrialists is that their own and their employees' interests are best served by leaving them unhampered to respond to market forces. They traditionally pride themselves on being faster to see and exploit new opportunities than any of their international competitors.

Len Dunning, director of Hong Kong's Trade Development Council, appropriately reflected this zealous view when he said: "This place moves so fast that the reality of our trade, its direction and the products we make, will always be ahead of any government report. Lots of meetings have been held, but back here on the farm, diversification proceeds as it always has in Hong Kong — by natural selection."

Len Dunning's view is well supported by industrial precedent in Hong Kong. In the rapidly expanding electronics sector, the growth in electronic watch exports is staggering; Hong Kong's producers have in five years come from nowhere to become the world's leading watch exporter in volume terms. Similarly, the alacrity with which Hong Kong's toymakers

embraced new technologies so that they are now world leaders in electronic toymaking is rarely seen elsewhere in the world.

And does anyone remember the boom in wig exports? In the six years to 1970 Hong Kong's wig exports rose from nothing to be worth HK\$937m a year. By 1974, the fad exhausted, exports had withered to a meagre HK\$43m. No one mourned; no one ever does in Hong Kong. They simply moved on into new enterprises, satisfying new fads and other passing fashions.

## Committee

Against this backdrop, the Government committee—formally known as the Advisory Committee on Diversification—seems more and more anachronistic. Indeed the Government itself insists it has no intention of telling Hong Kong businessmen how best to diversify as and when market forces demand or encourage it. In his budget speech on February 28, Financial Secretary Philip Haddon-Cave, emphasised that the committee had been set up "within the context of our general commitment to the market-based free enterprise system."

He pinpointed increasing protectionism in the West as a major reason for creating the committee. It is true that quotas imposed mainly on textile products by the EEC and the U.S. have given Hong Kong industrialists a number of headaches. But there is no hint that Government might better be able to overcome the problems created by quotas than Hong Kong industry itself.

In fact Hong Kong's industrialists seem to be coping with their usual imaginative panache.

The value of all textile exports rose by 6.4 per cent between 1977 and 1978. While exports to the U.S. (Hong Kong's biggest market) fell by 7.8 per cent, those to the next four largest markets (UK, Australia, Singapore and the Philippines) rose by anything from 18 per cent to 51 per cent.

While the quantity of certain exports was limited by quotas, exporters compensated by "trading up"—exporting products of higher value, which carry larger profits for every item exported—and by switching into clothing not hampered by quotas—like fur, leather and PVC clothing. The volume of fur garments exported in 1978 was 80 per cent higher than 1977, while leather clothing exports rose 22 per cent by volume.

Len Dunning noted with relish: "None of these products is controlled by quotas, and where there is a loophole our exporters will find it. Adam Smith lives."

A second and perhaps more important force behind the relentless need to diversify is Hong Kong's rising wage costs. At the root of this is an acute labour shortage. Hong Kong's total workforce consists of 800,000 people, but Jimmy McGregor, Director of the Hong Kong Chamber of Commerce, claims that manufacturing industry alone is short of 100,000 workers.

Rising wage costs and the labour shortage have had three important effects on Hong Kong industry. First, industrialists have been forced to mechanise in order to maintain sufficiently high levels of production. Secondly, this has led to a need to invest more heavily in worker training. Finally, the rising wage bill has squeezed company profits and forced exporters to "trade up" into

## INDUSTRIAL DIVERSIFICATION

DAVID DODWELL

products which offer bigger margins of profit.

At the same time there are severe limitations on Hong Kong's capacity for diversification. An acute shortage of land, accompanied by high population densities, rules out heavy industrial development, or the adoption of pollutive industries.

Hong Kong has traditionally been a copier of technology rather than an originator of new technologies. It has neither the cash nor the institutions necessary for original research, so must continue to rely on its imaginative exploitation of existing technologies.

## Training

A third constraining factor is the limited skills of the Hong Kong workforce: standards of education are constantly improving but only a small proportion of students stay on beyond the age of 16 for higher education or technical training. Very few employers are prepared to invest heavily in training their workers.

A fourth constraint on diversification is the rising cost of speculative investment. Many new industries demand heavy investment in sophisticated technologies, while the risks of failure are as great as they ever were.

When all of these factors are taken into account, the pressing need for Government interven-

tion in the form of an advisory committee on diversification is easier to understand.

While protectionism and quotas are problems that Hong Kong industrialists are familiar with, and able to cope with unaided, the same does not apply to problems that have arisen because of labour shortages and increased mechanisation. These are problems best tackled by a central authority. While they may eventually be handled by an Industrial Development Council modelled on the Trade Development Council which already exists, Government clearly has to take the first move.

The committee on diversification was due to report last autumn, but its progress has been badly delayed. Financial Secretary Philip Haddon-Cave claimed in February that just two of the six sub-committees set up by the main committee had so far reported; (these sub-committees comprise country studies, vocational education and training, land, industrial development, financial facilities and shipping).

Government officials now predict the report will be ready by autumn. Until then industrialists will continue to live by the jungle laws they know so well. Many remain sceptical about the government's ability either to change the laws, or make them any easier to live with.



The growth of Hong Kong's electronics industry has been phenomenal. Above: Workers assemble computer-printed circuit boards at the Ampere Ferrotec factory.

# Building continues at frenetic pace

## PROPERTY

HUGH PEYMAN

"HONG KONG will be a beautiful place, when they stop building it," wrote Han Suyin in *Love is a many splendored thing*.

Nearly 30 years later, building continues to change the face of Hong Kong at the same frenetic pace: and the prospect of the colony ever enjoying the beauty promised, when its population was still one-third of its present size, still seems to be a mirage.

A three-year boom has catapulted land and property prices into previously undreamed-of heights, while boosting corporate profits so much that the whole stock market took off last year on the back of property earnings.

Experts, whose own rents have probably nearly doubled in the past year, are wary of predicting the end of the boom — they have been wrong several times already — but market fundamentals suggest that the peak is in sight.

Within the next 12 months prices will probably dip as supply increases to meet demand. Some analysts would not be surprised if prices fell by up to 20 per cent for small flats (which comprised 93 per cent of new flats built in 1978) and 10 per cent for medium-sized properties; only very large units are likely to hold into their present value as Hong Kong continues to attract corporations to locate their regional headquarters here and because very few new units are built in the luxury sector.

Good communications, low taxation, location, developed financial and commercial facilities, still give Hong Kong an edge over such other rivals as Tokyo and Singapore.

The granting of new banking licences last year boosted the top end of the housing market with rents leaping upwards between 50 and 100 per cent to take advantage of demand from executives.

Washington's recognition of Peking, combined with China's economic modernisation thrust, promises to attract even more executives to Hong Kong. But so far, very few moves have been made, most companies interested in developing their China trade are waiting to see if the present policies and leaders in Peking are as durable as their plans are ambitious.

Dividends for Hong Kong property developers will have to wait to be reaped, and even when traders successfully beat their way to China's door, it is uncertain how much of this trade will be done through Hong Kong.

Work which Sinophila has not yet created any vast demand for Hong Kong property. Two records were set in the property market in the past year. Nearly HK\$1,400 per sq ft was paid for a central development site (by a group of South-East Asian overseas Chinese); in the property sector, flats in a block of luxury apartments were pre-sold for HK\$1,500 per sq ft.

Such dizzying statistics can blind the optimistic property bulls into believing that these prices will be new benchmarks to be surpassed in the near future. Soaring interest rates, which have virtually trebled in the past year with prime now at 13 per cent, combined with higher property prices, make buying a new flat an increasingly difficult proposition.

Even small flats of 400 sq ft cost up to HK\$700 per sq ft, while larger areas around 750 sq ft cost over HK\$500 per sq ft. Such outlays dent considerably most young families' incomes. With mortgages at present rates, purchases will tend to be delayed until either interest

rates or prices come down, or they are much more likely to the hard-pressed purchaser, hopefully both. However, on the mortgage front there is little sign that relief is at hand with U.S. prime rate firmly in double digits and the local currency weakening.

Building keeps on apace. The Government forecasts that by this year's end the housing stock will have risen by 15.8 per cent in the past two years.

Private developers are expected to build 30,335 new units this year and 31,270 in 1980, compared with 24,230 in 1978, which with 41,000 units completed in both sectors was the highest figure since the last boom peak in 1973.

With this upsurge in activity and the Government committed to further boosting its building programme, even the strongest bulls should hesitate and reflect on where the new demand will keep on coming from. Even with Hong Kong's population expanding, and incomes rising, it will take a large slice of new demand to absorb all this property at present prices—and the signs are that new sales are meeting resistance.

Hopes that the recent influx of immigrants from China, and the flow of Vietnamese refugees will help prop up the property market appear to be over optimistic.

Few arrivals are able to afford private property and even people in overcrowded Government housing have little choice but to squeeze up further and continue to pay the relatively low public authority rents; the high priced private sector is out of their reach.

Gold-carrying refugees in the Vietnamese armada have little desire to settle in Hong Kong, the pages of ancient history.

The supply of new office space this year is likely to be just half of earlier forecasts, partly due to the deferment of projects in Sheung Wan which suffered from a lack of confidence generated by previous high levels of vacancy, and higher yields are bringing forth new investment in office rental development.

The skyline of central Hong Kong will look considerably different in a couple of years time. Some analysts wonder if the ever denser, ever upward growth of office construction will cause a dip in developers' profits, since an estimated 3.5m sq ft of office space will come on to the market in and around Central within the next 12 to 18 months.

By 1981, the value of China to Hong Kong will have become clear. If the modernisation drive boosts foreign trade and prosperity rises in the Asian Pacific region, then this crowded tip of Southern China will be increasingly attractive.

But if the managers of the economy of a quarter of mankind decide to head in a more insular direction and unsmoothed hopes are made about the New Territories lease (which expires in 1997), then that fragile, but crucial, factor in the Hong Kong equation — confidence — will be eroded and capital will flee the colony.

Yet such thoughts are put aside during the honeymoon with the new masters in Peking and the riots of 1966-67, which sent property values crashing to the floor, are relegated to the pages of ancient history.

# Now soaring office blocks in Hong Kong needn't mean soaring office rentals.

Scheduled to be fully operational by the end of 1980, the 51-storey Sun Hung Kai Centre will be the tallest water-front structure in Hong Kong.

However, far more important to businessmen, already hard pressed by rapidly rising rental levels in the congested Central area, will be its proposed rental structure.

Rental levels for the Centre, which will provide de luxe office accommodation unsurpassed anywhere in Hong Kong, are currently being projected at about 75-80% those of Central.

It will thus be a natural first choice for existing businesses whose rental agreements are approaching a renewal date, and new businesses looking to set up prestige office premises in Hong Kong.

## Away from the madding crowds

The Centre is situated about a mile from the Central area, and its environment will offer a welcome relief from the congested stress of Central's sidewalks and thoroughfares.

Furthermore, it is ideally placed for easy access by road and water to the whole of Hong Kong, and there will be specially constructed pedestrian walkways to feed into the pedestrian podium around the building.

## Flexible offices

There are 41 floors of offices, each having over 13,000 feet of usable space. And to give maximum flexibility to tenants, the accommodation has been designed on a modular basis to allow for easy partitioning and economical use of this space. The de luxe internal decor throughout has been created by world-famous designers, Howard Hirsch and Associates. There will be maximum natural light on all 4 sides and impressive views, with high-quality reflective glazing to minimise glare and improve air-conditioning power conservation.

Finally, the entire building will be serviced by no fewer than 18 lifts — 4 of which will be the speediest ever in Hong Kong.

## A great deal outside the office

Two storeys of basement will provide over 200 parking spaces. The ground, first and

second floors will contain shopping arcades. And there will be a 3-storey restaurant served by 2 special observation lifts, with a dining area in a sunhouse on top of the shopping arcade, giving a panoramic view of the harbour.

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## Top-class management

Management of the Centre will be carried out by Sun Hung Kai Real Estate Agency Ltd. — the project management arm of Sun Hung Kai Properties Ltd., who specialise in Real Estate, Hotel Development and Property Finance and are one of the top five property companies in Hong Kong.

## Available early 1980

Phased occupancy of the Centre is planned for March 1980, and a special joint letting arrangement has been set up between Tony Petty & Associates (members of the Collier Group International Property Consultants) and the Sun Hung Kai Real Estate Agency. Enquiries can be made to either of them at the addresses below.

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مكمان التحول

# Textiles stay buoyant

## TEXTILES

BY RHYS DAVID

AS THE tide of refugees not just from Vietnam but from China as well, continues to press on Hong Kong, the performance of this year of the colony's textile industry is assuming more than its usual significance.

For despite diversification into a range of other industries, nearly half the jobs in many factories, employment—and supply—of all exports—still come from textiles and clothing. With Hong Kong established as the largest garment exporter in the world, the sector has created much of the wealth that has helped to improve living standards in Hong Kong to their present level, and it will be to textiles and clothing that many of the more recent immigrants will be looking for work.

For this reason, therefore, the relatively strong performance of the sector over the past year, and the reasonable prospects which most manufacturers see ahead is one source of relief for the hard-pressed Hong Kong authorities.

Last year, following a dip of 2.7 per cent in 1977, exports of garments rose by 13 per cent in value to HK\$15.7bn (\$1.57bn) as a result of rising demand in the colony's three main markets, exports to Britain, now subject to tight quota controls, rose by 12 per cent to \$1.9bn

(£190m) while those to Germany were up 18.6 per cent at HK\$2.5bn and those to the U.S. increased no less than 40 per cent to HK\$6.5bn.

In the first three months of this year, garment exports rose a further 30 per cent compared with the same period in 1978, and those to Britain were up by 53 per cent.

The pattern in textiles—the production of yarns and fabric—has also been one of recovery from the poor year of 1976 when demand for textile products fell off around the world. Hong Kong's textile exports last year rose from HK\$2.7bn in 1977 to HK\$3.9bn, though this was still some way short of the record HK\$4.3bn in 1976.

During the rest of this year, demand for both textiles and clothing is expected to remain strong. Though, in textiles, there are some complaints that yarn and fabric prices are being depressed by low cost imports from other Asian countries, most manufacturers are working at or near capacity. In garments, this picture is much the same with many groups short of labour.

It is a performance achieved despite increasingly tight quota restraints on virtually all Hong Kong's most important exports, though some would say it is also partly because of these.

Restrictions on exports of basic textile products, such as cotton yarn and cloth, first introduced more than 20 years ago and tightened at intervals since, have resulted in a decline in size of the textile sector (as opposed to clothing) over recent years, and with competition from newer textile producers growing this process is continuing. The textiles sector, which now employs 88,000, has, however, moved increasingly into higher quality yarns and fabrics and thus over the past year has been able to take advantage of the fashion swing towards finer materials in women's wear.

Many textile groups have also expanded their garment activities, but with new restrictions being introduced since the mid 1970s on garment exports, too, this sector—current employment 240,000—has also moved up-market in order to maximise the value of the quota assigned to it. This has meant producing better quality shirts, fancier knitwear and more fashionable women's dresses.

As in the past, the colony has also been quick to spot areas free of quota control. It is now a growing exporter of top quality furs and leather garments, and has also moved into other clothing accessories.

Although restrictions appear even to have had a beneficial effect, by sending Hong Kong manufacturers into up-market products where the returns are higher, there remains considerable concern over the longer term implications of continued quota control, and a new appeal to the EEC to reconsider the arrangements it negotiated with Hong Kong at the time of the renewal of the GATT Multi Fibre Arrangement in December, 1977, has recently been made.

The key point now being argued by Hong Kong is that the world trading system is being distorted as a result of quota control and that the benefits which were supposed to flow to the less developed countries as a result of tight restrictions have not materialised.

### Discriminate

The Hong Kong Commissioner for Trade, Mr. David Jordan, pointed out recently that in the two years 1977 and 1978 total imports of clothing into the UK rose by 35 per cent. Those from the EEC, however, rose by 48 per

cent and those from Mediterranean suppliers by 62 per cent, with the result that these two blocks were both able to increase their share of the UK market at the expense of developing countries.

The Hong Kong authorities also argue that the quota system discriminates between developing countries, perpetuating existing market shares. Thus, Hong Kong, as the biggest supplier, has been given the biggest quotas.

Other countries seeking to build up their textile industries run into quota restrictions at a much lower level, and are not able to emulate Hong Kong's growth as a supplier. In effect, it is argued, quotas, with their built-in annual percentage growth rates, lock individual suppliers into their present rankings on a permanent basis to the advantage of those that have already achieved a strong position. They also lock suppliers into the products they are already supplying.

There are other problems with quotas which also concern manufacturers, in particular their effect on costs. The system for allocating and transferring quotas among manufacturers and issuing export licences is handled by a 400-strong team at the colony's Trade, Industry and Customs Department, and the cost of running this service is met out of licences paid for by exporters.

To obtain export licences for controlled products, companies must have quotas and these are allocated on the basis of past export performance. Companies needing quotas can buy them from other companies with unused quotas and a widespread trade in quotas now takes place, subject to regulations laid down by the Government.

While most companies are finding little difficulty in obtaining quotas through this transfer system, the cost can still be substantial on "hot" items such as furs, or where particular shortages occur, or at year ends.

Some groups of companies are also concerned about the possibility of a

serious financial problems for buyers in the UK and other markets faced with sudden increases in price.

The EEC seems most unlikely to accept Hong Kong's suggestion of a review of its textile agreement with the colony, and there now also seems every chance of the present MFA agreement being followed by a third phase from 1981. The colony has, with its latest request to the EEC, given notice, however, that it will be pressing strongly for a relaxation of current restrictions when the next round of negotiations begins.

The industry is also becoming increasingly concerned at other internal pressures which could equally affect its ability to compete in world markets in the 1980s. Major construction projects, such as the Mass Transit Railway and the new towns programme in the New Territories, have attracted away male labour and driven up wage rates (now around HK\$1,000 to HK\$1,200 or £100-£120 per month).

Hong Kong's growth as a regional financial and tourist centre—a process likely to accelerate as China opens up further—is also creating new jobs for women in hotels, banks, offices and shops, where working conditions are more amenable than in textile mills. Though the Government has acted this year to cool down the economy, inflation is now running in double figures, again posing a threat to competitiveness.

With all land in Hong Kong extremely scarce, the cost of good industrial space has risen fourfold, according to some estimates, over the past five years. This has begun to affect the economies of spinning and weaving which because of the weight of the machinery cannot be housed in Hong Kong's multi-storey factories. Some textile groups have taken the windfall profits available from quitting prime sites and selling them to developers.

The unpredictable effects of the current world energy crisis are another cause for concern.



The Hong Kong textiles sector, which employs 68,000, has moved increasingly into higher quality yarns and fabrics. In the past year, the sector has been able to take advantage of a fashion swing towards finer materials in women's wear.

Hong Kong itself is unlikely to suffer directly any more than its competitors in Asia, most of which are dependent on imported supplies at world market rates.

Higher oil charges are, however, likely to hasten the steps towards recession in both the U.S. and the UK, on both of which Hong Kong is heavily dependent.

The response which Hong Kong is likely to make to these various pressures is in some areas already apparent. The continued inflow of migrants will go some way to reduce labour shortages, though manufacturers have found it takes some time for newcomers to China to adopt the pace of work in Hong Kong's factories and to achieve the same quality standards. Where recruitment has proved difficult, many textile companies have already invested heavily in labour-saving equipment and this trend seems certain to continue. Many of the more laborious jobs in textiles and clothing have already been automated.

China's own efforts at industrialisation also seem likely to provide Hong Kong with some of the spare capacity it needs in textiles and clothing. Most companies believe that Hong Kong's involvement will develop

### Quality

While Hong Kong groups may be slow, however, in establishing complete projects in China, production-sharing arrangements are expected, in which both partners will share in added value. Under these, Hong Kong would send in machine-made goods which need some hand finishing. Such a development would fit in well with the colony's moves up-market into higher quality garments, using extra trim and requiring more sewing operations.

With a higher cost structure than its Far East rivals, the production of higher value higher margin goods is likely to remain the strategy most of Hong Kong's groups will want to adopt, and parallel with this there are also signs that the colony will move increasingly towards the development of its own fashion ideas.

The world's textile industry has begun to increase its penetration of other markets, and in particular Japan.

of manufacturers developing and marketing their own products—has begun to increase. The target as Hong Kong moves up-market is likely to remain the West and, in particular, the big three—the U.S., Germany and the UK—which between them take 70 per cent of the colony's exports. For its own protection, however, Hong Kong has been seeking to increase its penetration of other markets, and in particular Japan.

All these developments, taken together, perhaps hint at the role Hong Kong may be playing in world textiles in the 1980s and 1990s. While the developed markets of the West will continue to be its bread-and-butter, Hong Kong may well also have a key regional role as a fashion centre within Eastern Asia, currently the fastest-growing region in the world.

As such, it might well have a smaller textile industry concentrating on higher quality goods but it would be the centre to which the region's other producers would look for ideas. This is what the Hong Kong textile industry would like to be perceived to be. The Hong Kong textile industry is not just another computer company. They are the largest computer service bureau in Southeast Asia specialising in processing data, offering total system design and implementation, data preparation and consultancy. Asiadata's number one status is based on the systems and communications expertise of Cable & Wireless Ltd., the trading experience of Jardine, Matheson & Co. Ltd., the business know-how of The Hongkong and Shanghai Banking Corporation and the world-wide resources of Barclays Bank International Ltd.

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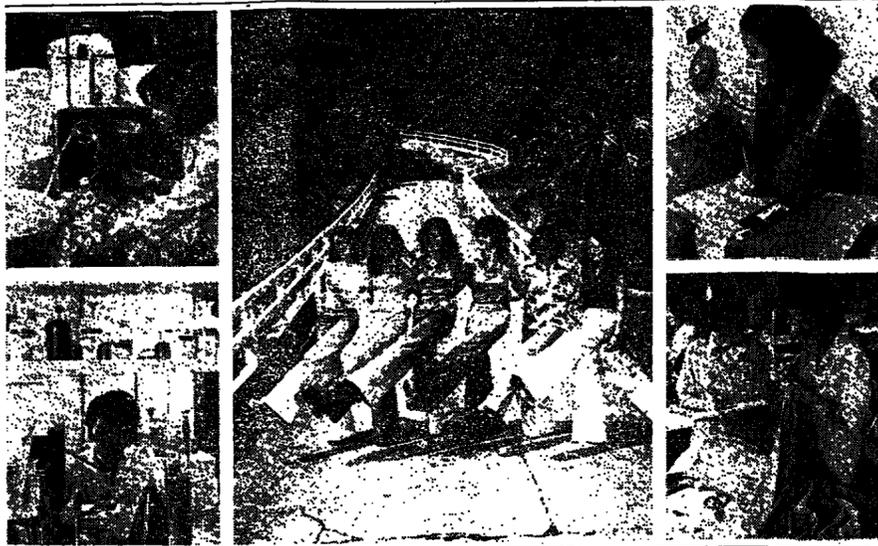
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## HONG KONG XII

# Phenomenal growth

### ELECTRONICS DAVID DODWELL

THE VITALITY of Hong Kong's economy, and the versatility of its industrialists, are remarkable. The colony's electronics industry epitomises these qualities—and embodies at the same time the structural problems inevitable in a small country committed to free enterprise.

One has to be impressed by the way that Hong Kong's industrialists have kept up with the hectic pace of technological innovation in industrial electronics and kept ahead in the fast-ridden world of consumer electronics.

On the other hand, Hong Kong's electronics sector is fast losing its competitive edge as labour costs mount. South Korea and Taiwan possess much cheaper labour, and have begun to eat into Hong Kong's markets for cheap electronics. Hong Kong businessmen also increasingly complain that the new technologies of the electronics industry demand a more highly skilled workforce—and that Hong Kong's education system is not yet producing enough workers with appropriate skills.

The electronics industry first took root in Hong Kong as its leaders worried over the economy's over-reliance on textile exports. It flourished because labour costs were low and because Hong Kong industrialists, always fast on their feet, were willing to switch smartly into novel areas of production as soon as opportunities became apparent. Today electronics is Hong Kong's second largest industry, and businessmen boast that they can see new openings—and exploit them—sooner than anyone else.

The industry is still young, but its growth has been phenomenal. In 1959 Hong Kong boasted just two radio factories, exporting products worth HK \$100,000. Twenty years later, 800 companies produce everything from micro-circuits to home computers, exporting goods worth HK \$6.45bn.

Hong Kong's electronic watch industry vividly illustrates this growth. Electronic watches were virtually unknown before 1970, and Hong Kong's role as a watch exporter was modest. In 1978 the colony exported 20.2m watches, worth more than HK \$1bn. In volume terms Hong Kong is now the world's leading watch exporter. Switzerland, which is still the world's leading watch exporter in value terms, must sorely regret its late interest in electronic watches.

The erosion of Switzerland's supremacy as the world's watchmaker is well illustrated in the UK market. In 1971 Switzerland supplied 87 per cent of the watches sold in the UK. By 1975, two years after Hong Kong's watch exporters entered

the UK market, the Swiss share had fallen to 68 per cent, and in 1978 had slumped to 30 per cent (all in value terms). By 1975 Hong Kong had won 4 per cent of the UK watch market; by last year this share had risen to 28 per cent. In volume terms Hong Kong is now the UK's leading watch supplier, with a 40 per cent market share.

Hong Kong's success was in copying a new technology, and exploiting cheap labour, to launch the resulting product on a mass market. The average wholesale price of an electronic watch from Hong Kong is HK\$50—about £5. The same plays won success in the export of radios, TV games and electronic toys. Radios—ranging from the simplest transistor through car radios to radio clocks—still provide Hong Kong with more export revenue than any other electronic product—HK\$2.2bn in 1978. While dramatic growth is a thing of the past for this well established industry, exports grew by a respectable 23 per cent between 1977 and 1978.

The colony's formula for export success has its drawbacks, however. As long as its products are aimed at a mass market, then low price will be the retailer's first consideration. This inevitably means low profit margins, which inhibits heavy promotion through advertising and limits research and development. Two distinct consequences are, first, that Hong Kong products remain anonymous to most buyers, and secondly that Hong Kong producers are trapped into a parasitical reliance on research conducted by other companies in other countries. As electronics technology becomes more sophisticated, this dependence becomes more absolute.

All of these factors have conspired to prevent Hong Kong producers from breaking into the "quality" end of the electronics industry. This has only become a worry since labour costs began to rise, and cheaper producers also exploiting "copy technology" have begun to edge into certain of Hong Kong's traditional export sectors. Swiss watchmakers still maintain a firm grip on the quality end of the watch market. Though Hong Kong producers have high hopes for the latest and most expensive electronic watches, electronic analogues they face severe competition from Swiss and Japanese producers and will always rely on

the more modestly priced Liquid Crystal Diodes (LCDs) for the bulk of their export income. The absence of any domestic research has resulted in serious problems for TV games manufacturers. They started three years behind U.S. producers who had conducted the original research, by which time the attempted export launch into the U.S. was doomed to failure. A flurry of interest over the Christmas of 1977, sales in Europe have also been disappointing.

Severe price competition meant poor quality control. In West Germany about 10 per cent of the TV games exported from Hong Kong were rejected on quality grounds, and some Hamburg importers complained they had to jettison between 30 and 40 per cent.

These early TV games offered a very limited range of possible uses, so boredom or breakdown put an early end to the fad. Hong Kong exporters have since paid much more attention to quality control, and the latest range of TV games is much more sophisticated and offers more subtle possibilities. But the initial disaster of Christmas 1977 has made European buyers much more wary.

### Prospects

A recent report by Hong Kong Trade Development Council predicts a "strong decrease" in the sale of TV games in West Germany, where severe price competition means that "hardly any profit can be made." Similarly, prospects in France, for the latest programmable and computer games are "not very promising"—mainly because importers who had their fingers burned in 1977 are reluctant to take fresh risks.

While consumer electronics have attracted most of the headlines, and make up 70 per cent of Hong Kong's electronics exports by value, industrial electronics make an important contribution—not least because they are not subject to the erratic whims of fashion dominating the watch and TV games markets.

Typical of this sector is Ampex, a wholly owned subsidiary of the U.S. company of the same name, which produces a range of products from computer memories to mini-computers and testers. Two recent "coups" for the company have been a U.S. military contract

and a contract to supply computer memories for Hong Kong's new Cable and Wireless telephone and Telex exchange. This company, run by Legislative Council member Allen Lee, recorded a 20 per cent export growth in 1978. In this respect it is unusual in the sector as a whole, which suffered a 0.7 per cent fall in export sales in 1978.

Allen Lee, in addition, is running Ampex, is chairman of the Hong Kong General Chamber of Commerce electronics committee, and chairman of Hong Kong's Electronics Training Board. From this vantage point, he is fast becoming happy about the state of the country's electronics industry.

He points out that Hong Kong's electronics companies are still confined to providing the simplest inputs into the industry—in radios, calculators and consumer electronics. The multinational electronics companies which would bring Hong Kong more sophisticated electronic technologies, have simply not been attracted to the colony. "Where he asks, are specialist activities like production of measuring instruments or medical electronics?"

Hong Kong is losing out to South Korea and Taiwan, Allen Lee claims—and for one major reason. The Hong Kong Government, committed to laissez faire and complete non-interference with its domestic industry, is failing to provide the industry with support and services' needs to survive.

"The days of free enterprise and laissez faire are over," Allen Lee said. "That doesn't mean government should be involved in directing industry—that would be too much involvement. But we need help in training, providing skilled labour, providing facilities for research and development. We need a body able to examine industrial strategy over a long period, to guide the industry and help it to co-ordinate its resources."

At this very moment Hong Kong's Government Commission inquiring into industrial diversification is preparing its final report before publication in the autumn. It is this commission which will provide the support framework that Allen Lee claims the electronics industry needs—if the industry is to get support at all.

Allen Lee is not altogether confident about the Diversification Commission's inquiry, however. Hong Kong's industrialists have traditionally thrived by promptly responding to new opportunities. The commission report is likely to be published a year behind schedule—and many Hong Kong businessmen would have lost his heart if he had been similarly slow.

# Still ahead of schedule

### MASS TRANSIT RAILWAY DANIEL NELSON

LONDON'S OXFORD Street station took five years to build. Hong Kong's 15-station, 15.6 km underground railway will be completed in four years. Vire la difference, says Mr. Norman Thompson, chairman of the Government-owned Mass Transit Corporation (MTR) and a champion of what he admits is the Colony's "Victorian, non-nonsense" approach to work and profit. Either because of Hong Kong's colonies and the Taoist priest who presided over the inauguration of work on the HK\$ 5.8bn railway, the project is under budget and ahead of schedule. This is despite foreign exchange losses of HK\$200m last year, death threats against members of the labour force by Chinese secret societies, the inconvenience of working in the heart of the most densely populated area in the world and major design changes after construction had begun.

Even an initial disaster, which almost derailed the entire scheme, turned out to be a blessing, according to Mr. Thompson. The Japanese consortium which had signed a letter of intent to construct a 20 km railway for HK\$5bn withdrew in December 1974 in the wake of the oil crisis.

Still convinced of the need for a railway—first recommended in a 1967 Freeman Fox, Wilbur Smith and Associates transport survey—and with much preliminary planning completed, the Government decided in September 1975 to go ahead with a modified system on a multi-contract basis, which Mr. Thompson believes is ideal for a project of this size. In addition, the world economic recession meant that major contractors were hungry for work.

Several have experienced difficulties, none more so than the Gammon-Kier-Lille (GKL) joint venture which is to construct two and a half stations and an interlocking network of four tunnels accounting for nearly a quarter of the civil engineering expenditure but only 10 per cent of the total route. Within six months it ran into serious difficulty when it was found that extensive and expensive groundwork treatment was required to prevent buildings in Nathan Road, the Colony's "Golden Mile," from collapsing.

of frenetic and apparently chaotic activity, with engineers installing sophisticated electrical equipment in clouds of dust and debris, literally in the midst of heavy construction work, standing elbow to elbow, tie the walls, "It's like a battlefield," says Mr. Livingston. "People are rushing about, elbowing each other out of the way. My main job is to keep everyone cool." Once the electrical and mechanical work has been completed, says Mr. Thompson, "the chances are that in terms of design and construction the system has been proved. We should have a fair chance of running through without a great deal of trouble on the next two sections."

The first section will begin operating on October 1 (part of it on a month's head of schedule). The second section is planned to be brought into service in January, 1980, three months ahead of schedule, and the section under the Harbour to Central the following February.

The opening will enable the Corporation to test its ticketing and passenger-flow system; no railway has ever dealt with as many passengers on a fully automated basis and it would have been dangerous to have opened the entire system at one go.

Government go-ahead for the 10.5 km, HK\$4.1bn Tsuen Wan extension was given in 1977. All but two of the major contracts have been let, all at a fixed price and on a monthly basis. The Corporation's design, unlike the design-and-construct method used in the first phase, because of the pressing need to get the project under way.

The extension is programmed to open in 1982. In that year the Corporation's debt is expected to reach a peak of HK\$1.8bn, almost all in Hong Kong or U.S. dollars. By the mid-1980s, the 1,800 operations staff are expected to be servicing 1.3m journeys a day—about

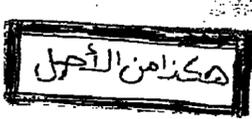
the same number as are carried on the London Underground which, with 252 miles, is 15 times as long. Initially, fares will range from HK\$1 to HK\$3, a level which the chairman says has taken into account possible wage and fuel cost increases in 1979 and 1980: "These fares should therefore not change in 1980 and hopefully during 1981."

The Corporation predicts gross revenue of HK\$679m in 1981, rising to HK\$1.2bn in 1986. Raising finance has proved far less of a problem than anticipated. There are no immediate plans for further large-scale fund raising, but the Corporation will have to raise HK\$4bn before 1983 to meet the pre-operational interest charges and loan repayments.

Yen appreciation last year caused the Corporation to cut its losses on HK\$650m equivalent of yen-denominated export credits from Japan. Against this, however, income from property development has been considerably higher than anticipated. The Corporation is developing three prime sites in joint ventures with property companies, the largest consisting of what is virtually a small town above the main depot and maintenance sheds at Kowloon Bay.

There will be 41 blocks providing 5,000 flats for some 25,000 people, as well as shops, schools, a sports complex, clinic and many other facilities. Already 2,800 flats have been pre-sold, with the proceeds roughly split between the Corporation and its partners, Hong Lung Development and Hopewell Holding. The Corporation's own property division will manage the 487,000 square feet commercial complex.

Proceeds from the sale of flats and from the office blocks in the other two property ventures have resulted in the addition of HK\$700m to the reserves. Other property developments are under examination. "We intend to develop every square inch we get," explains Mr. Thompson. "Having to operate commercially sharpens the mind wonderfully." And he adds with a confident smile, "things can be achieved here that cannot be achieved anywhere else."



# Resettlement on a massive scale

A RELATED seal of approval was placed on the new towns when Jardine Matheson, the major trading "hong", set up a New Territories Division. The move was a recognition of the economic implications of a policy that will increase the population of the New Territories to 2.5m by 1986. By that time, 40 per cent of the population will live in the area, compared with only 25 per cent now.

In traditional Hong Kong style, a number of Chinese entrepreneurs were far quicker off the mark and are now poised to cash in on one of the largest schemes of its kind in the world. Given the speed of development, it is not surprising that several foreign-owned companies have, only recently woken up to the potential and are scrambling for a piece of the action.

In the words of Mr. John Don, director of new territories development in the Public

Works Department, "planners in Britain draw up their proposals which are then kept in a drawer for 20 years. Here, work starts on the plans even before they are completed—planners can draw on their mistakes in a not put their mistakes in a drawer."

The New Town Programme arose from the setting of a Government target in 1973 for the provision of homes for 1.8m people in 10 years.

Because of the shortage of space in the existing urban areas of Hong Kong island and Kowloon, it was decided to develop three new towns—Sha Tin, Tuen Mun and Tsuen Wan, as well as expanding the "market towns" of Tai Po, Fanling and Yuen Long.

Initially, the aim was to produce a 50-50 split between public and private housing but, in order to keep up with the government's overall target, the final public housing element will be closer to 85 per cent.

Work began in 1973 but was

hit the following year by the economic recession. This setback contributed to the dismissive attitude of those who considered the new towns scheme little more than a grandiose plan, or who failed to grasp its magnitude.

Indication of the acceleration of the programme is given by the figures for resumption of New Territories land by the Government—from 1.56m sq ft in 1975 to an anticipated 36m sq ft in 1980-81. About 50,000 people a year, mostly tenants and squatters, are pushed off the land, and become the responsibility of the housing authority.

By 1975, construction was in full swing. Because of Hong Kong's hilly, rocky terrain the creation of the new towns started with land formation, flattening hills or filling the sea. In some places, such as Castle Peak Bay, the two were combined and mountains were moved into the sea.

In Sha Tin the total fill

## NEW TOWNS DANIEL NELSON

amounted to 30m cubic metres. The cost of developing the town, which legend says once provided the emperor's favourite rice, is HK\$5,000m and that excludes the race course and private development.

Sha Tin, where the target population figure is 570,000 from 44,000 in 1977, posed special engineering problems because it is subject to cyclonic surge. This meant that land formation had to be safely above sea level. And because it is situated in a virtually landlocked harbour, full primary and secondary sewage treatment had to be organised.

A further HK\$3,000m will be spent on the market towns and rural townships, whose combined population will be taken to 500,000. Some HK\$200m has been cut from the programme in the current financial year, although that still leaves expenditure of HK\$1,300m.

There are dangers in this situation, particularly if cutbacks continue, because the setting of priorities will inevitably mean that social aspects of the New Towns and secondary features, such as landscaping, will suffer. There is a sizeable market for trees and shrubs, 8.5m of which will be required in the next five years.



Tsuen Wan, one of Hong Kong's three new towns. The target population for Tsuen Wan is 900,000.

coastal road was allocated only HK\$4.5m in the last Hong Kong Budget.

There is also concern over the cost of the electrification of the Kowloon-Canton Railway, Yuen Long.

Perhaps the hardest task is keeping a balance between the growth of the population in the New Towns and the availability of jobs. Tuen Mun suffers from a labour shortage, although the planners believe this is a temporary phenomenon, while Sha Tin is under-provided with industrial land.

Transport within the towns is another area requiring careful analysis of priorities. Inconvenience is caused to existing residents because transport operators prefer to wait for large population build-ups before providing full services.

In Tuen Mun, which some planners see as a potential con-

tainer port with a rail link, the principle of a light rail system has been approved by the Governor. Money permitting, the system could be linked to the Kowloon-Canton Railway, Yuen Long.

Between 1974 and 1978 the supply of flat factory space in Hong Kong averaged 550,000 square metres a year, about half of it in the New Territories. The forecast for the next two years is 2.5m square metres, of which 1.6m will be in the New Territories. Provisional figures for 1980 indicate a total provision of 1.1m square metres of flat factory floor space, 820,000 square metres of it in the New Territories.

Monumental though this programme is, the planners are looking even further ahead.

"The New Town programme will be completed by 1986-87," said a senior planner. "We must think critically about how we plan Hong Kong after the year 2,000."

the New Territories, and another 80 hectares is expected to be produced this year.

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"The New Town programme will be completed by 1986-87," said a senior planner. "We must think critically about how we plan Hong Kong after the year 2,000."

## Decisions awaited on key issues

"IF WE don't build a new airport, Hong Kong will be strangled," according to a senior Government official. That would appear to provide a reasonable justification for the project. But despite years of discussion, a decision has yet to be announced.

Over 5.5m passengers passed through the existing airport last year and air freight rose 25 per cent to 228,000 tonnes with a value of HK\$1.4bn. Doubling up the single runway would increase capacity by only 20-30 per cent. A continuation of recent growth patterns would take Kai Tak to saturation by the mid-1980s. At that point, traffic—presumably tourists in the first instance—would have to be turned away.

There are possible alternatives to a straight Yes or No decision to an airport on Lantau Island—including siting the airport in Canton—but resolution of the matter depends on settlement of the question of the New Territories lease. The Government appears confident that if the lease question was settled, the airport could be built and financed without undue strain on the economy. Cost estimates vary from HK\$ 50n to HK\$ 100n, which could be financed by the sale of the prime land on which the existing airport is sited, and income from premiums for the removal of present restrictions on building heights in Kowloon.

A positive answer looked slightly more likely in March when the Government announced that a decision was expected "early next year" and that a layout plan was being drawn up by Parsons Overseas Company of Pasadena in conjunction with two other consulting firms and the UK Civil Aviation Authority. Agricultural land in the vicinity of the proposed site has been changing hands at three times the normal market price.

In the eyes of many in government, the airport is linked to a second major infrastructure proposal: a bridge joining Lantau to the mainland. As proposed by Engineering Consultants Group of Hong Kong the link is actually three bridges and linking roads: a hop to the small island of Ma Wan, a 1,300 metre leap to Tsing Yi (an island which has been developed for use by land intensive industries), and another hop to Tsunwan.

The consultants, who say that work could be completed by 1984 if design work starts immediately, suggested a fourth bridge to link northern Tsing Yi to the New Territories mainland.

Cost of a bridge has been put at HK\$ 1.27bn, compared with HK\$ 1.25bn for a submerged tube tunnel and HK\$ 1.61bn for a bored tunnel, alternatives which are also being examined by the Public Works Department Road works at either end of the bridge could cost a further HK\$ 1bn.

Given the other possibilities for development which we have," explained a senior Government official, "the cost of the bridge and associated roadworks could be justified

only if we have an airport. Land development along the north coast of Lantau would be a bonus. But the bridge cannot justify land development without an airport, unless we have to accommodate enormous extra numbers of people.

That "unless" is a real possibility. The medium term population projection envisages an annual growth rate for 1978-1988 of 1.5 per cent (down from 1.8 per cent in 1968-78). But that was based on a low estimate of immigration—absurdly low given the history of cyclical bursts of immigration into the Colony.

Because of these impediments, says Mr. Derek Jones, the Environment Secretary, "infrastructure planning must be more flexible. We must have a series of possibilities" and take decisions only when we have to.

But certain decisions have a momentum of their own. The New Town programme, for example, will proceed although work on the development of the "market towns"—Tai Po, Fanling and Yuen Long—will be spread over a longer time-scale. This is partly a result of economic constraints but is also wrapped up with a debate within Government over the rate at which people should be decanted to new areas; one body of opinion suggests that the existing urban areas could take more people as redevelopment continues. Government commitment to New Town development also entails a continuation of the improvement and expansion of roads in the New Territories, although the road programme as a whole will slow down.

the interchange station at Kowloon Tong, a new station for the KCR, becomes crucial. Passengers travelling from the New Territories to the urban areas in the south can switch to the underground, allowing the two rail systems to become an extension of each other.

Another example of rethinking is the consideration being given to a light rail system on the north of Hong Kong Island, instead of going immediately for an underground line.

Unlike the commitments in the New Territories, the transport plans for Hong Kong Island have not yet been settled, although decisions will have to be made within a year.

Two other key infrastructure facilities—power and water—are causing fewer headaches. For the former, current developments are sufficient to take care of demand projections until the end of the century. (The Underground will be connected to both the China Light and Power and Hong Kong Electric systems, so that all essential services can be kept operating in the event of a complete loss of supply from either company; it also has emergency diesel generators.)

On water, past developments, particularly the HK\$ 1.3bn High Island reservoir, and a new water agreement with China will enable the Colony to survive until 1983 on existing supplies, unless there is a catastrophic drought. This has allowed the operationally costly desalter at Lok On Pai to be deferred.

Studies are under way to ensure supplies in the longer term, since unrestricted demand is expected to rise from 100bn gallons a year to 176bn by 1988. One possibility is to dam Tofo Harbour and convert it into a freshwater lake. If the water was required while it was still salty, reverse osmosis desalters could be used.

Large areas of Hong Kong are now "sterilised" for planning purposes as water catchments, which places even more pressure on the scarcest resource of all: land. This is a perennially controversial subject because, apart from the engineering costs and difficulties of carving building land out of Hong Kong's hilly terrain, the Government is virtually the only source of new land for industrial, commercial or residential purposes. Government revenue from land transactions in the urban area in 1978 totalled HK\$ 831m (HK\$ 628m in 1977) and revenue from land sales in the New Territories HK\$ 137m.

There is a shift in Government thinking away from housing-led development into a more positive search for new areas to open up, particularly for industrial development. The two most promising areas are Junk Bay (which could provide a satellite town for 200,000, with some 72 hectares of new industrial land) and Lantau—which is why the bridge decision is so crucial.

**Housing**

Housing, too, will expand more slowly than was planned but will continue to receive high priority, which a senior planner admitted "may entail getting a bit out of line in other things." Difficulties could lie ahead if, as is likely, the housing programme outpaces the road programme.

The Transport White Paper published in May announced Government plans to spend HK\$1.4bn at 1978 prices on roads, tunnels and railways over the next five years. Whether this programme can be maintained will depend on the health of the economy, but there is complete agreement that nothing will be allowed to stand in the way of the underground railway in order to ensure that it maximises its revenue as rapidly as possible.

Similar reasoning protects the plans for the double-tracking and electrification of the Kowloon-Canton railway (KCR). Priority for the KCR arises mainly from the link it provides with China but also because it is considered a cheaper option than the original concept of taking the Mass Transit Railway to Sha Tin. In these circumstances,

## INFRASTRUCTURE DANIEL NELSON

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CHARTERED SURVEYORS CHARTERED SURVEYORS

HONG KONG XIV

Programme falling short of targets

HOUSING

DANIEL NELSON

DISASTERS and riots have proved effective in forcing unresponsive Hong Kong administrations to make major policy changes.

There are still 240 Mark I and II blocks, which were the first units to be constructed after the emergency post-fire accommodation.

found a standard below which we will not go and on which we will improve in years to come," he stresses.

There is no stigma attached to public housing, and arrears run at only 0.84 per cent of the total monthly rental.

Blocks

Between the Shek Kip Mei fire and 1973 there were two streams of housing: the resettlement blocks for squatters and the units built by the Housing Authority to provide homes for those in existing tenements.

housing situation, declared it offensive to "our humanity, our civic pride, our political good sense," and decided to attempt to break the back of the problem.

The numbers target is slipping, threatened by budgetary cutbacks. In his 1977-78 annual report, Mr. Alan Scott, the Secretary for Housing, looked forward to production of 18,000 flats in 1978-79 and 44,000 a year thereafter until 1983-83.

At the same time, the programme is under pressure from the new influx of immigrants and the trend for young couples to want their own homes instead of living with their families.

The Government's housing arm has been hit by the rise in construction costs and the over-riding of the construction sector, to which it is a major contributor.

The publicly stated target was to produce over 42,000 flats in 10 years.

The tender price index for public buildings rose 21 per cent in 1978 and the situation has now gone beyond one of juggling with rising costs.

Measures to overcome this difficulty include a Housing Department attempt to attract overseas companies through the use of serial contracts.

The Home Ownership Scheme has also been hit hard by rising construction costs. The original intention was to "lure the rich out of public housing" by building good quality flats and selling them at prices below those obtaining in the private sector.

The first phase of the scheme — 8,300 flats to be completed by 1978-80 at between HK\$93,000 and HK\$166,000 apiece — was heavily oversubscribed.

A further change was announced last May, extending eligibility to families with a monthly income of up to HK\$5,000.

Mr. Liao insists that despite the difficulties, the Housing Department is not cutting back standards. It is simply "not moving as fast as planned."

could not afford to buy a new privately built flat. The average price of a flat with a net area of 45.5 metres in the first phase was HK\$13,000.

Mr. Liao insists that despite the difficulties, the Housing Department is not cutting back standards. It is simply "not moving as fast as planned."

Gulf between the rulers and the ruled

LOCAL GOVERNMENT

DAVID DODWELL

THE HONG KONG Government's only report on local government quoted Confucius: "It is possible to make the masses follow what should be followed, but it is not possible to make them comprehend why it should be followed."

Just a handful of people rule Hong Kong's 5m population under a constitution set down by Britain's colonial administration more than 130 years ago.

He feels that Hong Kong's governmental structure guarantees that, at the pinnacle, the governor is responsible directly to the Queen.

Below Exco is the legislative council (Legco), comprising the governor, four ex-officio members, 16 appointed official members (called "officials") and 24 appointed unofficial members (called "unofficials").

Below this body is Hong Kong's apogee for democracy: the urban council (Urbcoc).

Urbcoc has 12 appointed members and 12 elected members. It has power over sanitation and hygiene. Voters must have lived in Hong Kong for at least three years, be over 21, be regular tax-payers, rate-payers, holders of school certificates, teachers, civil servants and some professionals also qualify, and a grand total of 6 per cent of Hong Kong's population is qualified to vote.

The conservative camp on Urbcoc (the majority) feels that a more substantial concession to democracy would court folly.

Martin Rowlands, secretary for the civil service and an official member of the legislative council — Hong Kong's "parliament" — reflects this view. "People genuinely

appreciate an attempt at honest government, and appreciate the results. More than anything else they want stability and the opportunity to conduct their business with the minimum of interference.

Other checks and balances exist: the Director of Audit weeds through the government accounts every year in search of negligence or misconduct and has in the past come up with substantial criticisms requiring Government action.

His recommendations are considered in detail in the Public Accounts Committee, which meets in camera. The Director's instructions when preparing its reports are to deal with "principles, systems and procedures rather than with details and personalities" — a situation hardly conducive to full disclosure.

Hong Kong also has "government by phone-in." Every department has a senior officer on call every morning to deal with complaints or criticisms voiced by callers to Radio Television Hong Kong (RTHK).

Elsie Elliott is not impressed by these concessions however. Her closely documented evidence of government injustice, incompetence or corruption is massive, and stretches back many years.

Elsie Elliott, also an Urban Councillor (elected), does not agree: "The only principle that exists in Hong Kong Government is freedom for the ruling class to make money without having to consider the rights of any but their own class."

It would be unfair to say that Hong Kong's rulers have made no reforms. The New Territories administration has set up a wide network of local committees to act as conduits between government and the local community.

These CDOs aim to be "united" to Hong Kong's urban population, channelling government decisions through to them, providing them with access to Government departments and

services, and feeding back to the Government opinions on the grass roots. This network claims numerous successes, although it has often roused resentment inside other Government departments when it has fed back to them public criticism of their actions or policies.

Its role in smoothing ruffled feathers, and helping people to get appropriate compensation during the immense social disruption as the Mass Transit Railway was built, produced favourable comment from all quarters.

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she said in a recent pamphlet "US means the colonials, the social climbers, the omniscient and omnipotent ones. THEM means the rest, numbering about 4m people, the ordinary folk."

It is this polarisation that she most fears. She reports a "strengthening undercurrent of militancy and unreasonableness" among "the ordinary folk," which augurs ill for Hong Kong's political future.

The impregnability of Hong Kong's rulers "angers her greatly." "A member of the administration can do any damn thing. He can be corrupt, lazy, ignorant or incompetent and will barely ever lose his job."

At the root of this criticism is an attack on the continued heavy use of expatriate labour, particularly at the highest levels of Government administration.

While expatriates make up only 3 per cent of Hong Kong's 127,000-strong civil service, at the directorate level (where salaries are in excess of HK\$11,000 a month) expatriates make up 64 per cent of the workforce. Among top management the next rung, expatriates make up 40 per cent.

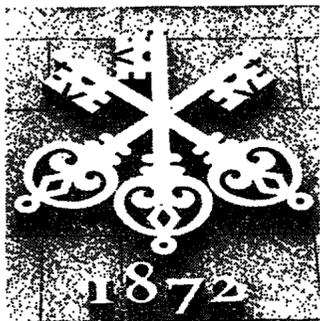
Grievances are compounded because expatriates "get very important preferential assistance with housing (which is crippling expensive in Hong Kong) and paid home leave every year, with extra holiday to facilitate this."

Again, Elsie Elliott is blunt: "The withering of Britain's colonial service means fewer and fewer expatriates have experience or expertise to match local people. The fact is that many who come are ambitious men who are not good enough to fulfil their ambitions in Britain."

Basically, they are throwouts. But when they arrive here they are almost guaranteed safe passage to the top. The Chinese, who know all the answers, are usually passed over."

Elsie Elliott's comments must seem harsh, but they reflect a substantial body of opinion among Hong Kong's Chinese population — a body of opinion that would have to be listened to much more attentively in an elective democracy.

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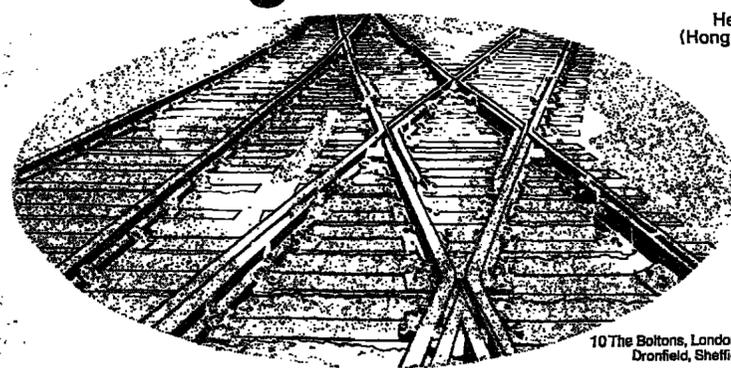


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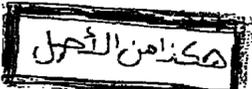


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HONG KONG GOVERNMENT OFFICE

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HONG KONG XV

# Demand for world action on refugees

HONG KONG has been hit by a human monsoon, as no end seems in sight to the flood of pathetic Vietnamese refugees pouring across the South China Sea towards Hong Kong, so the Government has warned the world that it is near the end of its tether.

Hong Kong Governor Sir Murray MacLehose's alarm call was made for maximum impact in Britain and the United States, during his recent tour of western capitals. Coinciding with Malaysian threats to shoot Vietnamese refugees as they tried to come ashore, Sir Murray's warnings struck powerfully home.

The call by Mrs. Margaret Thatcher, Britain's new Conservative Prime Minister, for an emergency UN conference on refugees, was probably a direct result of Sir Murray's visit. So too, was Foreign Minister Lord Carrington's whistle-stop visit to Hong Kong, for a first-hand look at the refugee problem.

Victory in the battle to attract world attention to the refugee crisis is, however, only a first stage in the war being waged to resolve the problem. Hong Kong is now isolated as the only remaining refuge for escapees from Vietnam as they drift with the south-west monsoons. Unless the sympathetic sentiments voiced by Western leaders are backed promptly by concrete action, then the colony faces a dilemma of dreadful proportions.

Between January and the end of June, over 53,000 Vietnamese refugees arrived in Hong Kong. They continue to arrive at a rate of more than 1,800 a day, and local analysts predict 200,000 will have arrived in Hong Kong waters by the end of the year.

At the same time, immigrants both legal and illegal are pouring in from China. An estimated total of 150,000 arrived up to the middle of June, and while the flow has been stanchied in recent weeks, Government experts still predict an influx for the year of more than 230,000.

## Crowded

Hong Kong is already one of the world's most crowded corners: one area of Kowloon boasts a population of 144,000 people per square kilometre. Around 5m people squeeze into a land area of 404 square miles, and the prospect of absorbing another 400,000 as a result of one year's uncontrolled migrant influx is a daunting one.

The Hong Kong people themselves make a clear distinction between the Chinese and Vietnamese arrivals—and it is the Vietnamese who arouse the most venomous feelings. Chinese immigrants may be marginally more numerous, but most of them are single men, aged between 18 and 35. Exhilaratedly and culturally they merge easily—and are eager to do so. Many have relatives already in Hong Kong, albeit distant relatives. They bring few dependants, and while they arrive with no particular work skills, they can easily be absorbed by Hong Kong's labour-hungry industry.

In contrast, the Vietnamese arrive with large numbers of dependants. They have no interest in settling in Hong Kong, and plan to stay only as long as is necessary to get entry visas to the United States or other countries of apparent golden opportunity. Few speak Cantonese, and when offered the opportunity of language tuition, opt to learn English. Many are peasants, and have adapted poorly to jobs offered in local industry.

The refugee camps which now hold the Vietnamese are bursting at the seams, and the cost of keeping them is easy to count—they are a clearly visible social problem. Immigrants from China may eventually cost the Hong Kong Government much more, but these costs are, and will continue to be, almost negligible. In consequence, the issue of Chinese immigrants is much less emotive.

As refugees, the Vietnamese present a number of anomalies. Early arrivals were all ethnic Chinese, but the recent influx has included an increasing number of ethnic Vietnamese. Those from the south (an increasing proportion) are often wealthy. It is now acknowledged that they pay dearly for safe passage out of Vietnam—up to \$2,500. Even before other SE Asian countries began to turn them away, many aimed for Hong Kong simply because the authorities made no attempt to confiscate the gold leaf which they carried with them, the last remnants of their wealth.

Most face persecution in Vietnam because they are racially Chinese, because they made up Vietnam's pre-revolutionary petit bourgeoisie, or because they worked for the U.S. Army, while it was fighting in Vietnam. Increasing numbers of refugees repeat the same story: their property confiscated, their work permits and food ration cards are withdrawn. They are then given a choice between buying their way out



Urgent new moves are being made to halt the flood of illegal immigrants crossing Hong Kong's 15-mile land border with China. After their arrest, immigrants (above) receive a bread ration from a Gurkha soldier.

## IMMIGRATION DAVID DODWELL

of the country or being sent to one of Vietnam's "New Economic Zones." Whenever cash can be scraped together, the choice is a simple one. The refugee influx reached epidemic proportions in April when East Asia's monsoon winds began to turn: throughout the summer, the south-west monsoon will push Vietnamese refugees relentlessly on to Hong Kong's western shores—so long as they don't sink and drown before they reach there. The Hong Kong authorities claim that one refugee drowns for every one that leaves Vietnam.

This fact, if no other, should galvanise Western Governments into action. The UN conference called for July 20 in Geneva may seem to have been swiftly arranged, but many thousands of lives will be lost even in this short time.

Slow action by the Western powers has led the nations of South-East Asia to the verge of despair. In theory, Vietnamese refugees should be no more than a passing problem: Western Governments, particularly the U.S. and France, acknowledge that Hong Kong, like Malaysia and Indonesia, is simply a processing centre, and that the Vietnamese will move on, in due course, to permanent homes.

The problem is that they are being processed at a snail's pace. For every 100 refugees processed, more than 1,000 arrive to await processing. The U.S. has recently doubled the rate at which it is prepared to accept refugees to 14,000 a month, but even this is inadequate to deal with the influx.

In the meanwhile, the price of housing and feeding the refugees mounts alarmingly. They cost the Hong Kong Government an estimated HK\$10,000 a day. Pocket money was cut in April from HK\$ 8 a day to between HK\$ 4 and HK\$ 6, depending on family size.

The UN High Commission for Refugees (UNHCR), which shares costs with the Hong Kong Government, claims its coffers are almost empty. Refugees awaiting resettlement are encouraged to find part-time jobs, but they have proven to be fickle and unreliable workers.

The Government is also running out of places to put refugees. The two initial processing centres, at the Government dockyard, and near Kai Tak airport, hold 16,000. Prisons house a further 2,500. A warehouse has been converted to take 11,000. The Government has leased other properties to the UNHCR: the main camp at Sham Shui Po holds 8,800 after extensions completed at the end of May. Nearby, the Jubilee buildings house a further 2,000.

## Squeeze

A further 2,700 were housed abroad, the Panamanian freighter, Skylock, which arrived in Hong Kong waters on February 8. But just over a week ago, crew members managed to cut the anchor chain and the Skylock ran aground on one of Hong Kong's offshore islands. The refugees on board have since had to be squeezed into prison accommodation on Lantau Island. As more refugees arrive, the government is drawing up contingency plans to clear warehouses, multi-storey car parks, hotels, and even ferry boats.

As a matter of principle, the colony's Government is reluctant to make life too comfortable for refugees: that would encourage Western governments to drag their feet even more. The uptake of refugees by Western nations has disappointed Hong Kong, and driven the ASEAN leaders to take a much harsher stance. When Margaret Thatcher

China's interest that Hong Kong should remain prosperous, and that continued large scale immigration is likely to weaken severely the economy—by putting fresh strains on public services, welfare services, hospitals and schools, and by exacerbating Hong Kong's acute housing shortage. Chinese action since Sir Murray's visit seems to have matched that in Hong Kong for effectiveness: border patrols have been strengthened as troops from the 42nd Army have returned from Vietnam. A propaganda campaign seems to have been mounted, criticising aspiring emigrants, and tougher punishments seem to have been returned to the mainland.

The Hong Kong authorities urgently needed a respite on the border with China: they can now concentrate on tackling the Vietnamese refugee crisis. The Geneva conference on July 20 cannot come soon enough. at least to the extent of allowing an orderly departure of refugees. The Geneva conference must attain these two objectives as a minimum if the nations of SE Asia are to be appeased.

## Attractions

While the Vietnamese refugee problem still remains unresolved, the crisis over immigrants from China may have passed: concerted action by authorities on both sides of the border seems to have brought the problem under control for the time being, at least.

It is not difficult to see the attraction of Hong Kong for many young mainlanders: living close to the border, the sky to the south glows every night from the lights of Hong Kong. This British enclave offers not only bright lights, but the tantalising prospect of wealth and escape from the grueling and schizophrenic life under Communist rule.

The greatest problem comes from illegal immigrants (called "I-Is" or "eye-eyes" in local jargon). These flooded in when China's war with Vietnam broke out, because border patrols were thinned drastically. Hong Kong patrols have been at full stretch since last autumn, however. In the first six months of 1979, about 150,000 Chinese crossed into Hong Kong—most of them "I-Is." About 45,000 have been sent back.

It only becomes possible to log accurately the rate of illegal arrivals when "I-Is" "touch base": if they reach the Hong Kong urban area, then after three months they can safely apply to the Registrar of Persons for an identity card and a right to permanent residence.

The alternative, Hong Kong officials insist, is an "underground" population with no right to legal work or residence—a recipe certain to produce drug trafficking, black marketeering, petty crime, prostitution and other illegal means of earning a living.

During the past month aspiring immigrants have been much less successful in slipping through the net flung along the border between Hong Kong and the mainland. An extra 1,000 troops from Britain, with extra helicopters, a hovercraft and a fast patrol boat, have no doubt helped to reinforce border patrols on the Hong Kong side.

New laws enabling police to detain "I-Is" for court appearances (until recently they were returned to China within 24 hours) has helped in the campaign to catch "A-As"—aiders and abettors. So too have new laws permitting police to board any vessel suspected of carrying "I-Is," and to seize vessels of any size found carrying them. But these can only be stop-gap solutions. A long-term solution can only be achieved if the Chinese authorities take pre-emptive action on the other side of the border.

Illegal immigration was high on the agenda when Sir Murray MacLehose made his historic visit to Peking in April. Sir Murray returned convinced that Chinese authorities were aware of the scale of the problem, and appreciated the advantages to both sides if the flow could be stanchied. Chinese appeared to be

Handwritten note in a box: "July 10/1979"

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HONG KONG XVI

No end to the Kung Fu craze

THE FLYING fists of Kung Fu Maestro Bruce Lee had cash registers ringing round the world for the Hong Kong film industry.

THE FILM INDUSTRY SIMON LLOYD

Nobody has come along with the same charisma to capture the imagination of audiences. But the local industry certainly has no complaints about box office receipts, with the two big production companies in the Colony — Shaw Brothers and Golden Harvest — painting a rosy picture for this year.

Golden Harvest, for which Bruce Lee was such a goldmine, has about 14 films on the production line for this year, including a US\$17m thriller High Road to China to be directed by John Houston. A company spokesman said: "We've averaged about 13 films a year since we were founded in 1970. This year is going to be one hell of a year. The films will be predominantly action comedies. Kung Fu is becoming a little frayed at the edges nowadays. There is never going to be another Bruce Lee."

The company has also just had a very pleasant financial surprise in Japan, which ranks after the U.S. as one of the world's most lucrative film markets. They released a Hong Kong comedy Private Eye with two talented local Cantonese brothers, Michael and Sam Hui, as the stars. Everyone thought the humour was too parochial—it would never travel, they said. Golden Harvest hired a top team of Japanese comedy writers to do the subtitles, business boomed at the box office and a Hui follow-up is now underway for Tokyo.

Productions, 'Controlling production lines out of Hong Kong is rather difficult.' Hong Kong, famed backdrop for The World of Suzie Wong and Loco is A Many Splendid Thing, is still proving to be a popular location site for overseas film companies, with more than 30 films being made in a year.

Coming Home, which won Oscars for Jon Voight and Jane Fonda, came to Hong Kong for Bruce Lee to enjoy some celluloid rest and recreation away from the Vietnam war. Elaborate stunts were staged for the bumbling Inspector Clouseau as Peter Sellers gallivanted his way through the latest Pink Panther saga in the back alleys of Hong Kong.

Ryan O'Neal, star of the hugely successful weepie Love Story, came with Candice Bergen to Hong Kong for the follow-up — Oliver's Story — which took the crew to the picturesque fishing port of Aberdeen, famed for its garish floating restaurants.

comedy to be the big winner. They take three of the top four places with their films. The top foreign entry down at No. 5 is that daddy of the disaster epics—Towering Inferno. Avid fans of quality films from the West have slim pickings to choose from. Local critic Mel Tobias, who recently wrote a book reviewing the post-Bruce Lee film industry, complains: "If a film doesn't pick up at least one Oscar or make money elsewhere in the region, it won't be shown in Hong Kong." Come Oscar time eager cinephiles rush along to catch the main winners before they vanish from the screens after an all-too-short appearance.

The "skin flick" is another notable and widespread phenomenon on the screens of Hong Kong, but Tobias complains: "The irritating thing about reviewing films in Hong Kong, particularly sex films, is that by the time they reach our screens there is really very little flesh left after the censors have been through them, scissors waving, killing even the continuity."

Tobias's book is illustrated with some fairly steamy scenes from local productions, but Hong Kong Film Censor Nigel Watt points out in his introduction to the glossy book: "Some of these photographs are the imaginative products of studio still photographers and do not necessarily depict scenes as they appeared on the cinema screens of Hong Kong."

Bruce Lee, who died six years ago, still casts a giant shadow over the industry which once poured out a flow of look-alike movies with titles like Bruce Lee, We Miao You. Those days are gone and Mel Tobias reflects optimistically about the industry, concluding: "Somebody may just come along to put Hong Kong back into the international limelight."

The HONG KONG Chinese would happily bet on a race between two raindrops trickling down a window pane. If you think this is an exaggeration, take a trip to the racecourses of Happy Valley or Shatin and watch the fanatical Chinese punters in action. They put a mammoth HK\$10m on every single race. A look at the Jockey Club turnover statistics for this year shows that per capita every man, woman and child in Hong Kong wagers HK\$950 on the horses, one of the highest gambling rates in the world.

The English may have a fondness for individual horses which develops into a passion when it's Red Rum or Arkie. But in Hong Kong the crowd is out there rooting for Number Three. The courses particularly the newly opened Shatin on a spit of reclaimed land, may offer some of the most up-to-date racing facilities in the world. But when it comes to horses, the average Hong Kong racer would not be out of place in a selling plate at Catterick. That is of little importance to the Hong Kong punter, eager to win the quinella or other exotic bets



A director of Shaw Brothers—who last year produced 70 films—directs a Qing Dynasty period film at the famous "movie city" in Clear Water Bay, Hong Kong.

casinos are their main beat but they will also raid building sites to catch workmen playing Pai Kai, the Chinese equivalent of dominoes, for money. Illegal bookmakers are another popular target, although catching them in the middle's stand on the race course is often a tricky task. Bets are passed by word of mouth and debts are cleared afterwards outside the track. But the Hong Kong Chinese are not just confined to the race course in their eager search for the fast buck. Just 40 miles across the Pearl River are the neon-lit casinos of Macao, the delightful old Portuguese territory, that is an oriental gambler's dream. The casino syndicate makes an estimated US\$300m a year out of the Chinese passion for gambling: a large slice of the money goes towards the Macao Administration's revenue.

Macao, the oldest European settlement in Asia, is a particularly fascinating place to gamble in because of the variety of offers. There is the delightful steady floating casino moored in the waterfront where the imaginative tourist can easily visualize himself being submerged in misty night. Then there is the huge and extraordinary 195m Grosvenor, a 21st century casino whose gambling tables are more like a stage set for the like Close Encounters of the Third Kind than a casino.

The Westerner coming to Macao should also throw away all preconceived ideas of what a casino looks like. Forget elegance and sophistication of Monte Carlo, with its impeccably dressed James Bond types and their high escorts. Don't think you will be transported into the brasserie elegance of Las Vegas with all its neon lights, show girls and one-arm bandits. In Macao the ultra-serious business is gambling and you'll be finding shoulders with a winner's old fisherman or an old (Chinese servant) determined to win that elusive fortune and escape the headlines.

But all too often the "big sharks" who do such a lucrative trade — offering outrageously high interest rates in exchange for the unfortunate gambler's travel documents — do a roaring business with the desperate. Even so, the sharks do nothing to deter the ever hopeful Hong Kong gambler. Every week the hydrofoils are packed with eager punters. Gambling is a part of the expatriate Chinese way of life, and whether it's the casino or the racecourse, they genuinely revel in every minute of it and happily gamble away fortunes that most could ill afford to risk, let alone lose.

Bewildering statistics

GAMBLING BY A CORRESPONDENT

that offer him the kind of stupendous odds the tierce punter gets in France. Hong Kong had 65 race meetings this season and every one was packed out. The gamblers took Shatin—an engineering miracle built on 16m tonnes of reclaimed land—to their hearts, though some of the longer-priced winners may have hurt their pockets.

The Jockey Club, which gives the bulk of its profits to charity, does not stop there when it comes to pandering to the Chinese passion for gambling. It also arranges the Mark Six lottery, Hong Kong's answer to Bingo, for 4.7m people. As the name suggests, you have to pick six out of 36 numbers in the twice-weekly draw. The Chinese, eagerly hunting for the big bonanza, happily invest more than HK\$2m a year on this

game, which depends on pure chance and nothing else. Sunday horse racing was introduced for the first time this season and it certainly proved popular in a tiny territory where leisure pastimes are often hard enough to find for today's increasingly affluent young Chinese, who have come a long way from the misery of their refugee parents who just struggled to survive. About 40 per cent of the wagers were made on course, with the Club's wide circle of off-course betting shops providing the rest of the revenue.

That is as far as legal gambling extends in Hong Kong. Anything else is outside the law — bar the odd friendly game of Mahjong, where no commission is taken. Last year Hong Kong police made almost 12,000 raids on

illegal gambling dens, resulting in 13,429 arrests. Despite the impressive statistics, a police spokesman did say: "It is the opinion of the police that when compared with the many other problems the general public faces in Hong Kong illegal gambling cannot be considered serious. There are special anti-gambling squads in every police division. Their main problems are small-time illegal casinos, usually operating out of private flats in high-rise buildings. They are very difficult to track down. They rarely operate out of each flat for more than two days and are constantly on the move. Regular clients are contacted by their pager buzzers and can easily be assembled; operations are hard to track and crack. Moreover, the courts tend not to slap on the maximum fine once an offender is caught. You can get two years' imprisonment and a HK\$500,000 fine for operating an illegal casino. On average most offenders escape with a fine of HK\$5,000-10,000. Gamblers are much luckier, escaping with pinprick fines of HK\$150-200. Police anti-gambling activities do not stop there. Illegal

How the biggest unknown bank in Holland can make you better known in Hong Kong.

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If you want to become bigger and better known in the Far East, let Pierson help you orient yourself. For further information contact Mr. Tom van Manen of our Marketing Department, 214 Herengracht, Amsterdam, The Netherlands. Or contact Mr. A. A. Best, Rooms 1517-21, Swire House, Connaught Road, Hong Kong.

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مكتبة النهرى

# A big future for 'talking computers'

BY MAX WILKINSON

"Hello, this is the computer speaking. What do you wish to order?"

"RO OD PT N 15674331"

"Sorry, that part has been replaced by N 15674339"

"RO OD PT N 15674339"

"Thank you, the order will be despatched at once"

MAYBE this doesn't sound all that wonderful. Certainly it is not in the class of telephone conversation which Betsy keeps insisting us to have with our loved ones. But talking computers are not programmed to be intimate. Endlessly polite, they are, invariably patient. But as conversationalists, definitely limited. Perhaps it is a wonder that they can talk at all.

In fact, talking isn't the difficult part. The problem is that computers can talk indefinitely, but are poor listeners.

To make yourself understood by a computer you have to treat it like an imbecile. Certainly it is not in the class of telephone conversation which Betsy keeps insisting us to have with our loved ones. But talking computers are not programmed to be intimate. Endlessly polite, they are, invariably patient. But as conversationalists, definitely limited. Perhaps it is a wonder that they can talk at all.

For these reasons the talking computers which are beginning to appear in the commercial market do not usually accept spoken commands from their users. A system sold in the UK by Menzies Communications Systems—a subsidiary of the British chain of newsagents—for example, uses a small calculator-style keypad which is coupled to the mouthpiece of an ordinary telephone.

In the example at the beginning of this article, the user would dial straight into the computer and press buttons on his keypad to transmit his identification code and his

request. But the computer responds with an ordinary human-sounding voice.

The great advantage of a talking computer is that it is much more accessible than conventional systems. These usually communicate with human operators by displaying information on a bulky and expensive television screen. To communicate with a talking computer, all that is needed is the special keypad costing £100, or less, and access to a telephone. The computer itself, of course, must have special voice production electronics.

## Salesmen

The Menzies system has been installed by several motor car companies to enable a serviceman throughout the country to dial straight into the central computer to order spare parts. It is also used by travelling salesmen who want to make up the available checks on the availability of stocks, while visiting their customers. It could also be used for the validation of credit cards for which a spinning disc on which words and phrases have been pre-recorded by a live human. The computer assembles these words into the order required to make its sentences, and the result sounds surprisingly natural.

This system is a comparatively simple example of the way in which computers are increasingly being programmed to imitate and even to replace human facilities—for good commercial reasons.

It is happening because computer manufacturers are

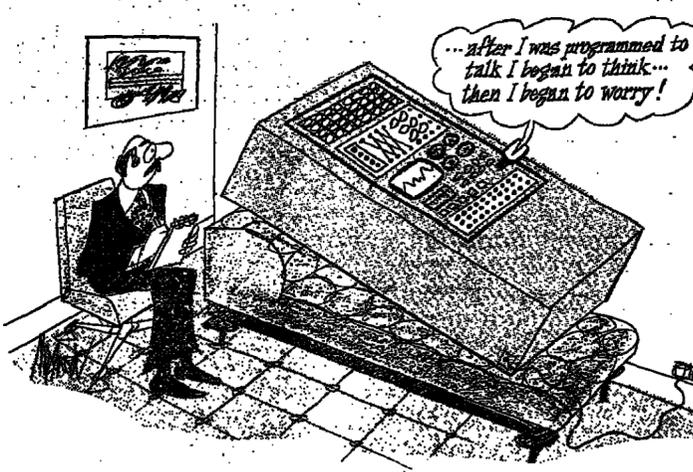
coming under increasing pressure to find new markets as the cost of their products falls. The revolution in microelectronics has caused the price of computers to drop by about 35 per cent a year (for all levels of performance). That means the manufacturers will need to find a completely new category of customers if they are to prevent their revenues from shrinking.

To do this, they are trying to "democratise" computers, to liberate them from the jargon of the technological elite and, in short, to force them to speak our language. Systems designed for small businesses must be comprehensible to the small businessman and to some extent to the ordinary secretary.

At the same time, even the bigger systems are required to be what the industry ingeniously describes as "user-friendly". That means they must communicate in natural language with a growing circle of secretaries, production workers and executives who now have access to the networks of computer terminals.

Once computers can use natural language it is a comparatively small conceptual step to make them talk, although the technical feat is impressive. Texas Instruments has even produced a miniature talking computer for nursery school children. It costs £47, has a vocabulary of 200 words and is intended to teach spelling. The machine produces a completely synthetic imitation of the human voice which will certainly be developed for use with more complicated systems.

Professor Donald Michie, Professor of Machine Intelligence at Edinburgh University, believes that talking computer systems will be in general use in the next two or three years. He believes the systems will be used for airline reservations, stockbroking, perhaps air traffic control and other applications where very busy people need to obtain instantaneous informa-



tion from a computer. However, with computers, as with people, the mere ability to speak must be distinguished from what Professor Michie describes as "user-friendly". That means they must communicate in natural language with a growing circle of secretaries, production workers and executives who now have access to the networks of computer terminals.

Research into artificial intelligence does, in fact, show every sign of breaking out from the mists of speculation of the last decade to become a thing of real practical importance.

In the U.S. research is being conducted in at least 12 different institutions; and some of the larger electronics companies are beginning to take a lively interest in the results. Several of these companies, including Texas Instruments, have for example, recently been on an active recruitment drive

among the 200 artificial intelligence researchers at Stanford University in California.

One motive, undoubtedly, is the desire to make computers better at recognising speech patterns and at understanding their meaning. Computers already exist which can respond to a few spoken words in a restricted context involving very few questions; and answers. Their development could clearly have important military and commercial applications.

However, there is no need to be alarmed that a complete electronic Frankenstein's monster is just about to be wired together. Professor Christopher Longuet-Higgins of Sussex University points out that in addition to the practical difficulties of distinguishing different accents and similar sounding words, a number of conceptual problems are very far from solution.

What, for example, is a com-

puter to make of the "it" in the sentence: "It is raining" or "It is advisable...?" Or suppose a computer is told that if "all men are mortal" and "Socrates is a man," it must follow that "Socrates is mortal." The professor says that if the machine was then told: "Men are numerous," it would probably deduce "Socrates is numerous."

Indeed most of the experiments in making computers converse in natural language have demonstrated the severe limitations of what is possible. Some computer programs have been able to give life-like responses to general questions but at the expense of appearing mentally disturbed or in some other way extremely limited.

One early example was a program called ELIZA developed by Professor Joseph Weizenbaum of the Massachusetts Institute of Technology in which the computer simulated a psycho-

analyst interviewing a patient. The computer program was so good at "analysing" its patients that some people even requested private sessions with it and some experts said that every hospital should have one.

However, Weizenbaum points out that the analysis was essentially fraudulent because the computer had no understanding of its "patients' sur of language. It was simply going through a series of clever routines. Another attempt by K. M. Kolby produced a clever program called PARRY which simulated the responses of a paranoiac to questioning. However this seemed to be successful mainly because the computer could simply revert to a supposed obsession whenever it could not "understand" a question.

In general, therefore, research has shown that the problems of enabling computers to respond to ordinary language are much more difficult than the optimists in the computer industry once supposed. Computers can only converse intelligently on an extremely limited and specific subject.

More fundamentally, Professor Weizenbaum has pointed out that computers could never fully grasp human language unless they could feel human emotions like love and fear.

Borderland However this philosophical borderland between mind and matter is not especially important to the commercial world. It has become more interested in the way artificial intelligence can tackle highly complex but nevertheless limited practical tasks.

An important example is the development at Stanford of computer systems which will simulate the thought processes of professional experts. One such system called PROSPECTOR has been developed at

Stanford Research Institute International to help companies decide where to drill for oil or mineral deposits.

The programme works by first interviewing an expert to establish the tests which should be made, the deductions which should be drawn from them and the further investigations required. When the computer has remembered the methodology of the expert, its can give "consultations" to prospecting companies to advise where would be the most likely places to drill.

Mr. John Cashnick, one of the scientists working on the project, says that in tests so far the computer's predictions have proved remarkably accurate.

Similar "Expert Systems" have been successfully developed for medical diagnosis. A likely next step will be to make such systems generally available for consultations in the law, accountancy and other professional fields. Such systems will probably be used in conjunction with a "talking" machine.

If, as now seems very likely, artificially intelligent computers are to become commercially important, the question must be: "What is happening in the UK?" Professor Michie and several others in the field believe the answer is: "Not nearly enough."

At present research in the UK is distributed between a few "scattered scholars" he says. To compete with the Americans and the Japanese, he believes a special research centre is needed to concentrate the country's resources.

"I believe it is like the oil crisis," he says: "Nobody believed it was serious until it was too late. But unless something is done, in ten years' time when the Japanese and the Americans run all over us, we shall be sorry."

## Imports may fall

From the Economic Adviser, Burg and Co.

Sir—Lex (July 5) has uncovered a further vital piece of the jigsaw in any comprehensive analysis of the effects of rising sterling and the UK overseas trade balance where he comments upon "Forward cover."

We know from successive studies of trading invoices that overseas trade tends to be conducted in the currencies of the suppliers, ie UK exports are in sterling and imports are in foreign currencies. The point is that, all along, it has been UK importers who have been the major users of "forward cover" to protect their import costs from falling sterling. This policy gave overseas suppliers to the UK a heaven-sent opportunity to stockpile contracted goods in the UK as foreign car manufacturers can testify.

Both UK importers and their overseas suppliers will have to revise their importing and UK stockpiling activities with stronger sterling. For example, "spot" U.S. dollars, and "I think, all other currencies are cheaper today than "forward" purchases made at the time import business was contracted. (Usually two months-eight months ago).

There is a distinct possibility that we are about to see a useful fall in UK imports and a recovery of market share by home manufacturers for a wide cross-section of goods. The "J curve" effect of devaluation would be then (because the metaphor, stood on its head). But we must look further into the future for a more stable overseas trade balance, policy changes and hence, I must add, my own support for the switch of taxation from income to sales in the Budget.

Put simply, I expect to see a fall in imports from recent currency and taxation policy changes. It may take a few months for the new import trends to become clear, but I have discussed with the Department of Trade the following of imports statistics can be misleading in the short term where indices are derived from "spot" instead of "contracted" foreign exchange rates when sterling is on a rising trend. A. G. Hornsall, Burg and Co. 25 Worship Street, EC2.

## MacMarkets merger

From Mr. A. Hill

Sir—In your report of plans for the merger of MacMarkets with International Stores ("MacMarkets deal threatens jobs," July 5), you have, perhaps unwittingly, given the impression that MacMarkets was in trouble with management problems and barely profitable. Indeed, you speak of both companies having gone through serious management changes in the past year. As far as MacMarkets is concerned, the only senior management change made at the end of last year was brought about by the retirement of Mr. G. D. S. Black, who had been chairman for the past 20 years. He was succeeded by Mr. H. F. Thornburn, the retail director, who has also been with the company for many years.

## Letters to the Editor

In fact, MacMarkets has grown into a very efficient operation, albeit relatively small. Its managers have shown considerable capabilities in spite of the heavy competition in the High Street. MacMarkets has become steadily more profitable.

If these two points lead to the question, why a merger at all? I would like to explain that it is simply because retailing is not a main-line activity for Unilever. It would have needed a high level of new investment in MacMarkets sites over the next few years to improve, or even maintain, the present position. This could only command a low priority in Unilever's total investment strategy in relation to its main operations. Thus our thinking was that the merger plan would provide management and staff not only with a low level of redundancy but additionally a very good opportunity of future job security and career development. A. H. C. Hill, Unilever, Unilever House, PO Box 68, ECA.

## Metric pound and inch

From the Managing Director, Quantum Science

Sir—The chairman of GKN Distributors asks (July 2) for legislation to accelerate metrication while at the same time producing evidence that half his customers do not want it. He does not mention what proportion of these people are still using imperial sizes because their goods are sold on to the North American market. No amount of British legislation will change the demand for UNF and UNC threads in North America. Mr. Grubb will be faced with the choice which he has now of either satisfying this market or denying his company the profits from it.

So far as one can see from publicity, the Metrication Board has given no thought to the metric inch and the metric pound. When Britain goes metric, pipe threads throughout the world will be measured in inches. The North Americans will use the national pipe thread and the rest of the world British Standard pipe thread. If one looks at the radiator valve in an overseas hotel room, one will see something like a stumped into the metal. This means in British Standard pipe thread. If we drop the inch, we will be the only metric country which does not use inches.

In common usage, it is doubtful whether the word inch will disappear. A French steel erector will still call out: "un pouce vers moi—an inch my way." In so many ways, an inch is a much more useful dimension than a centimetre.

In the same way, throughout Europe, housewives will shop in pounds—the livre of France, the pond in Holland, and the pfund in Germany, etc. The word kilo is used only to describe an even number of pounds. In a provincial market, a French housewife will ask for "trois livres de pommes—3 lb of apples." This is 1 1/2 kg and about 10 per cent more than three English pounds of apples. Again in France, game fish are always weighed in pounds, even if they amount to an even

## Rates of pay in engineering

From the Director General, Engineering Employers' Federation

Sir—On July 5 your second leading article referred to the joint NEDO and Manpower Services Commission report on labour shortages, listing two particular priorities. There were the need to improve differentials between the skilled and unskilled and the need to reduce distinctions in conditions of employment between clerical and manual unions. Engineering employers fully agree with these priorities, both of which have strongly influenced our Federation's approach to the renegotiation of the national agreement for manual workers in the engineering industry.

The reluctance of the Confederation of Shipbuilding and Engineering Unions to accept any increase in the differential between skilled and unskilled rates remains a major problem. There is, however, no other way to redress the lack of skills which continues to constrain the growth of so many engineering companies.

The EEF has proposed a major initiative in the form of joint discussions, involving both manual and staff unions, with the objective of achieving the harmonisation of certain terms and conditions. We see this as a vital step towards the elimination of some of the arbitrary distinctions between the office and the shop floor. There will be no progress however unless employers, staff and manual unions are all determined on a common aim.

Engineering employers are not only fully aware of the need for progress in the sectors which you have highlighted, but see the present national negotiations as a way to move forward. Let us hope that the unions too will recognise this opportunity. A. F. Frodsham, Engineering Employers' Federation, Broadway House, Fenchurch Street, SW1.

## Changing jobs and homes

From the Chairman, Home Relocation

Sir—As you so rightly say in your leader column (July 5) the Prime Minister should let "market forces" operate without restraint to correct the imbalance between high unemployment in certain regional areas and a scarcity of skilled labour in London and the South East.

You do not, however, appear to have given sufficient emphasis to the relationship between rates of pay and housing costs. The skilled worker in Northampton or Sunderland

earning £3,500 pa is not likely to be attracted to London for an additional £2,000 a year when he realises that the £5,000 or £6,000 equity he has in his comfortable detached home in Northampton will only provide a deposit on a flat or terraced accommodation when he moves to the capital.

The cost of housing (even more than crippling commuter fares) is what deters skilled and professional people from accepting a marginally higher paid appointment in or near London. There are scores of case histories where carpenters, mechanics, school-teachers, young civil servants and middle management have declined the opportunity of taking up higher paid posts in London because of the exorbitant cost of housing.

George Bristow, Home Relocation, 21 Soho Square, W1.

## Loss making in steel

From Mr. D. Green

Sir—Roy Hodson's comment (July 4) on the dismal figures from British Steel and on the substantial contribution of the Welsh Division to the losses in particular—deserves one postscript on relative as opposed to absolute losses. If one divides the divisional losses by the numbers of employees one has a rather different league table:

Tubes division—	£774 profit per employee
Sheffield	£788 loss per employee
Scunthorpe	£1,411 loss per employee
Wales	£1,995 loss per employee
Teesside	£3,231 loss per employee
Scotland	£7,155 loss per employee

Assuming that British Steel adopts fairly standard manning criteria—and without denying that its whole undertaking needs attention—it would seem that a rather different emphasis is required to that afforded by Mr. Hodson. David Green, Rhys yr Harding, Castle Morris, Near Haerfordwest.

## A near-perfect money market

From Mr. K. Bishop

Sir—The Government has decided that market forces should be allowed to operate freely in the present petrol shortage. The Government has fully decided to try and persuade the building societies to go against the current of the present money market.

There is little justification for this inconsistency. Although higher interest rates will penalise present mortgages, the lack of funds will mean fewer mortgages granted to first home buyers. Our building societies have a fine record of service rendered to the community and a fine record of integrity and expertise. The Government needs to think very seriously before upsetting the delicate balance of what has always been a near "perfect" money market; a market in which the vast majority have an interest, either as investors or borrowers. K. A. Bishop, 24, Petergate, SW11.

## GENERAL

UK: Transport and General Workers Union conference opens, Scarborough (until July 13).

International Whaling Commission 31st annual session opens, London (until July 13).

Mr. William Whitelaw, Home Secretary; Sir David McNeae, Metropolitan Police Commissioner; and Mr. Patrick Jenkin, Social Services Secretary; speak at Department of Health conference on intermediate treatment for young people, Sheffield (until July 11).

Financial Times/City University two-week course opens on financial management for the

## Today's Events

non-financial executive, London.

Greater London Council committee discusses experiments to save energy on the Underground.

Investigation opens into loss of the trawler Boston Sea Ranger off Cornwall (December, 1977), Great Yarmouth.

Overseas: Central banks governors meet in Basle.

U.S. Senate discusses ratification of UK-U.S. double tax agreement.

Mr. Byron Theodoropoulos, Greek Foreign Ministry secretary general, and Mr. Ozdemir Yigit,

Turkish Foreign Ministry, discuss control of the Aegean, Athens (until July 11).

Mrs. Indira Gandhi, former Indian Prime Minister, appears before special court charged with false prosecution of Government officials.

PARLIAMENTARY BUSINESS House of Commons: Committee stage of Finance Bill, Motion on Customs Duty (Personal Reliefs) Order.

House of Lords: Northern Ireland Act (Interim Period Extension) Order 1979. Northern

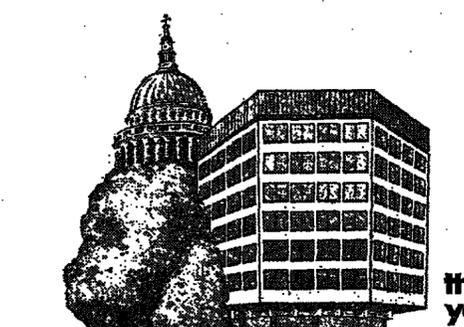
Ireland (Emergency Provisions) Act 1975 (Continuance) Order 1979. St. Vincent Termination of Association Order 1979.

Britain's contribution to EEC Budget.

OFFICIAL STATISTICS Department of Industry publishes wholesale price index numbers (June—provisional).

COMPANY RESULTS Final dividend: Carlo Engineering Group; Graig Shipping Company; Marier Estates; May and Hassell; Second Great Northern Investment Trust; Warner Holidays.

COMPANY MEETINGS See Financial Diary on page 18.



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# UK COMPANY NEWS

14 Companies and Markets

## Intl. Timber continues with cautious optimism

FOR THE first part of the current year at least, the continued rise in timber prices will be beneficial to International Timber Corporation. "A continuance of cautious optimism appears justified," Mr. R. E. Groves, the chairman, tells shareholders.

Referring to the acquisition of Bambergers, he says the drawing together of the two groups should produce very worthwhile benefits both in reduction of costs and expansion of business.

Acquisition of three additional builders' merchants branches in Essex from Bolton and Paul has also extended coverage in that area.

Arising from the need to provide replacement premises for Bambergers, timber distribution depot in Bristol, directors have acquired since the year-end, a recently developed site from a competitor in Avonmouth which will give a significant boost to trading in that area.

For the year ended March 31, 1979, the group reported pre-tax profits up from £5.97m to £8.05m on external sales of £167.4m against £134.7m. CGA profit is reduced to £4.14m after adjustments for depreciation, £1.65m, cost of sales, £4.04m and gearing, £1.77m.

The chairman says the programme of improving operational efficiency and making the best use of assets has continued. Sales of surplus freehold sites, compared to the anticipated cash inflow mentioned last year of at least £1m realised nearly £2m. Further disposals are planned.

### BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether dividends are in mind or final and the sub-divisions shown below are based mainly on last year's timetable.

**TODAY**

Intarim—Eurotherm International, Status Discount.

Finals—Carlo Engineering, Gale Shipping, Marler Estates, May and Hassell, Rothschild Investment Trust, Second Great Northern Investment Trust, Warner Holidays.

**FUTURE DATES**

Intarim: Jacobs (John I.) July 26; Macpherson (Donald) July 10; Mowlem (Crestal) July 12.

Finals: Agra July 12; Heron Motor July 17; Laurence Scott July 18; MFI July 18; Town and City Properties July 13; Watson (R. Kelvin) July 12; Wyndham Engineering July 25.

This year, medium-term loans of up to seven years arranged with some of the clearing bank lenders in the UK now total £15m. These, together with the proceeds of the rights issue, will reduce short-term borrowing and strengthen the balance sheet, thereby providing a base for further growth and expansion.

### FT Share Information

The following securities have been added to the Share Infor-

mation Service appearing in the Financial Times: Jostens Inc. (Section: Overseas—New York), Shaw and Marvin (Textiles).

## Rotaprint seeking new money

ADDITIONAL working capital is required at Rotaprint and the Board is studying various prospects for the introduction of new funds on favourable terms, Mr. G. C. Nichols, chairman, tells shareholders.

The aim of the Board in introducing new capital will be to enable new products to be fully exploited and overall level of borrowings to be reduced, the chairman says.

Rotaprint is a co-defendant in a claim for damages of some £5m, started by the joint receivers and Judicial Administrator of S. A. R. L. Guyot Fourreault, the company's former distributor in France.

The claim is contested by the company and the other co-defendants and is subject to French law. Rotaprint is receiving legal advice in France. The company and the co-defendants are of the opinion that the claim is without substance and consequently no provision has been made in the accounts.

## Chloride expects growth despite adverse market

THE trading environment for the Chloride Group is expected to be tough this year with overcapacity and severe price competition in many of its markets, Sir Geoffrey Hawkins, chairman, says in his annual report.

The general world economy is also expected to remain sluggish with low forecast growth rates in Europe and a slowdown in the U.S. economy.

Despite these unfavourable external factors, the chairman expects the group to continue to achieve growth in both sales and profit.

For the year ended March 31, 1979, pre-tax profits rose from £25.1m to £29m on sales of £246.1m compared with £203.2m. CGA profit is reduced to £13.8m

after adjustments for depreciation, £3.4m, cost of sales, £18.5m and gearing, £5.7m.

Chloride Europe showed an improved profit while Chloride Overseas had a generally satisfactory year with an improved performance in Australia. In Chloride America there was a welcome increase in profit, which was more than doubled.

Referring to the group's use of lead and its possible effects on health, the chairman says main problems are emission from smelter chimneys inside groups smelting plants and dust at ground level, both within and outside plants.

The investment programme takes full account of the need to comply with the limits pre-

scribed by the relevant authorities throughout the world.

Directors have just commissioned an audit by EMB, the most advanced environmental smelter control equipment in the world at a cost of £500,000, which represents half the cost of a total modernisation programme on this site.

Additionally, of the total of £20.9m spent on new plant and equipment throughout the group during the year, £5.4m was for improved environmental and amenity purposes.

Sir Geoffrey is retiring after the annual meeting and will be succeeded as chairman by Sir Alexander Pilkington.

Meeting, London Hilltop, W., August 2 at 11 am.

## BIDS AND DEALS

### Simon Eng. in deal for plant hire assets

Simon Engineering the process plant contracting group, has agreed to acquire the assets of Trinity Plant Hire from the Receiver of JCBG for £230,000.

Trinity operates a plant hire business from Cassington, near Oxford, with regional depots at and near Burntwood, near Lichfield.

In August last year Simon bought Northern Engineering's 50 per cent shareholding in Chesdale Plant Hire with the declared intention of expanding its plant hire business. The acquisition of Trinity as an operating division of Chesdale Plant Hire is in line with this policy.

The two companies' depots will, when added to Chesdale's existing depots in the North-west, north-east and South Yorkshire, provide Simon with wide regional coverage over England and Wales.

**SHARE STAKES**

Feeder Agricultural Industries—J. R. Williams, director, sold 30,000 shares and his wife has sold 10,000 shares.

EMI Sunset Group—Viscount Beardsley's beneficial interest has been reduced to 1,536,002 by sale of 174,549 shares.

London Midland Industrial Trust—Trustee, Trustee, now holds 579,997 ordinary shares (6 per cent).

London and Liverpool Trust—Stoller Securities has bought an additional 201,000 shares bringing their holding to 242,000 shares. W and A Investment Corporation, through a wholly owned subsidiary, has increased its holding to 970,000 shares by buying 220,000 shares.

EMI Sunset Group—The beneficial holding of Viscount Beardsley has been reduced to 1,536,002 by the sale of 174,549 shares.

L. J. Dewhurst Holdings—L. J. Dewhurst, director, has sold 133,000 shares bringing his holding to 796,076. M. S. Dewhurst sold 133,000 shares bringing his holding to 1,136,783. Mrs. E. McQueen, wife of a director, has sold 8,000 shares.

Smith St. Anby and Company (Holdings)—J. D. Mackintosh sold 15,000 shares on July 3 and 106p. P. Mackintosh sold 31,000 shares on July 3 at 106p.

## Lindustries tackling loss makers

STRENUOUS EFFORTS are being made to bring loss-making divisions of Lindustries back into profit, says Mr. W. E. Luke, chairman of Lindustries, in his annual statement.

He adds that last year the substantial losses suffered by Galloway Walker and Delaney Callaway Dynamics discounted the excellent performance of the engineering companies. Profits of the engineering operations rose slightly from £3.16m to £3.26m, while the group taxable surplus expanded from £8.53m to £7.24m.

While efforts are being made to turnround engineering loss-makers in the case of Galloway Walker, the company's viability depends on the volume of orders from the National Coal Board, Mr. Luke points out.

However, of late, the Coal Board's requirements have been smaller than in the past.

The other engineering companies are in good shape and have started the year with good order books, says Mr. Luke.

A current cost statement shows group taxable profits at £3.8m, against £3m, after adjustments for depreciation £1.6m (£1.5m), cost of sales £2.6m (£2.9m) and gearing £601,000 (£603,000).

Meeting, The Dorchester, W1, on July 31 at noon.

fund was fully invested over the period and its value at the end rose to £5.6m. The Gilt Edged Fund, however, showed a fall of 4.4 per cent in unit price and its value remained unchanged at £3.7m. The Money Fund has a unit price rise of 4.4 per cent and stood at £4.7m on December 18.

In VAT, in addition to restrictions in the supply of petrol and derv.

Although confident in the long term outlook, the directors are more cautious in the short term.

Meeting, Eastbourne, July 26, 3 pm.

## Baraora off to a slow start

The current season got off to a dry and slow start on the estates of Baraora Tea Holdings. By mid April the crop was about 17 per cent behind that seen at the same time in 1978. However, conditions now appear more favourable and, if these continue, the shortfall may be made good as happened last year, says Sir Colin Campbell, chairman.

Expansion of manufacturing facilities to cater for increasing crops to Rasipur and Dragon Estates had been restricted by power limitations. This problem has been overcome by connection

to the electricity grid and the extra power now available will allow for the much needed additional machinery to be installed.

A moderately severe drought early in 1978 retarded the crop in the first half. There was rapid improvement when rain came and by the end of the season the crop on three estates was 3 per cent higher than the previous year.

This was satisfactory and sustained their confidence in the correctness of the agricultural policy and the tea, having im-

proved in health and vigor, is now able to recover from the effects of drought more readily than before, Sir Colin says.

The bulk of last year's crop which was 74 per cent green tea, yielded an average price marginally lower than in 1978. Production costs were substantially higher, primarily because of a 74 per cent jump in labour wages.

The effect was to depress taxable profit from £287,575 to £247,823, though sales were only marginally down at £1.85m.



# INTERNATIONAL TIMBER:

## The year starts well

Extracts from the Annual Statement by the Chairman, Mr. R. E. Groves.

**Results**

The outstanding event for the Group during the year was the acquisition of Bambergers Ltd. and plans for full integration were largely completed by the financial year-end. The drawing together of the two Groups should produce very worthwhile benefits both in reduction of costs and expansion of business.

During the year under review world timber prices moved up and demand was somewhat better than in 1977/78. The final quarter of the financial year was most disappointing. The weather badly affected trading, especially in the North, but the real blow was the effects of the national transport strike, the adverse effect of which on pre-tax profits throughout the Group was of the order of £2 million. Following this, the year finished on a strong note in March.

With the inclusion of the second half year of Bambergers the Profit available after Tax for dividend is £4,232,000.

Your Directors are recommending that the total dividend be increased by the permitted maximum to 8.0865p per Ordinary Stock Unit, which following the interim already paid of 3p requires a final payment of 5.0865p.

**Balance Sheet**

The programme of improving operational efficiency and making the best use of assets has continued. Sales of surplus freehold sites have continued and further

disposals are planned this year. The outstanding balance of just over £2 million of Unsecured Loan Stock was converted to Ordinary Stock during the year.

Medium term loans of up to seven years arranged with some of our clearing bank lenders in the UK now total £15 million. These, together with the proceeds of the recent Rights Issue, will reduce short term borrowing and strengthen the Balance Sheet, thereby providing a base for further growth and expansion.

**Future Prospects**

Trading conditions generally are not likely to be any easier in the coming year. The pick up in trading which occurred in March has continued into the first two months of the current year. Sales for this period were up by 18.2% on a year ago. For the first part of the year at least the continued increase in timber prices will be beneficial. A continuance of cautious optimism appears justified.

**Financial Highlights for the year ended 31st March 1979**

Sales ..... £167,398,000  
 Trading profit ..... £9,533,000  
 Profit before taxation ..... £8,046,000  
 Profit after taxation ..... £4,232,000  
 Ordinary capital & reserves ..... £51,029,000

International Timber and its subsidiaries are engaged principally in the production, transportation and distribution of wood and wood panel products, distribution of all building materials, and as manufacturers and suppliers of materials and services to the construction industry, to industry generally and through branch outlets to trade and retail consumers.

Copies of the Annual Report for the year ended 31st March 1979, containing the Chairman's Statement in full, are obtainable from the Secretary, International Timber Corporation Limited, Carpenter's Road, London E15 2DY.

While efforts are being made to turnround engineering loss-makers in the case of Galloway Walker, the company's viability depends on the volume of orders from the National Coal Board, Mr. Luke points out.

However, of late, the Coal Board's requirements have been smaller than in the past.

The other engineering companies are in good shape and have started the year with good order books, says Mr. Luke.

A current cost statement shows group taxable profits at £3.8m, against £3m, after adjustments for depreciation £1.6m (£1.5m), cost of sales £2.6m (£2.9m) and gearing £601,000 (£603,000).

Meeting, The Dorchester, W1, on July 31 at noon.

## PGA fund over £20m

The report to policyholders from Property Growth Assurance, a member of the Phoenix Assurance Group, for 1978 shows that the Agricultural Fund had a successful nine months to the end of December with the unit price rising by 13.6 per cent. The fund acquired 1,641 acres during the period and passed the £20m mark to reach £21.3m on December 18.

The main Property Growth Fund had a unit price rise over the whole of 1978 of 12.4 per cent, with the value of the fund standing at £22.5m at end-1978. The Retirement Annuity fund had a price increase of 8.2 per cent over the nine month period reaching £2.1m in size, while the Immediate Annuity Fund showed a 10.5 per cent rise in price with a fund value of £4m.

The Equity Fund had a steady performance over the period with a unit price rise of just over 9 per cent. In general the

## NCNR turns in £542,000

After eliminating income and expenditure relating to the assets used in November, 1977, pre-tax profit of New Court Natural Resources, which operates oilfield services and proven oil and gas properties in the U.S., rose from £201,000 to £542,000 in the year ended March 31, 1979.

Earnings per share are shown to be up from 0.41p to 2.23p.

The net dividend is increased by 10 per cent to 0.55p.

The directors have decided to consolidate NCNR's 83.7 per cent share of its subsidiary, Exploration and Production Services (Holdings) which puts the 1978 pre-tax figure at £629,000.

## Caffyns starts well

The current year has started well at Caffyns, motor dealer and engineer, with increased turnover for April and May compared with last year. Sir Edward Caffyn, the chairman, says in his annual statement.

However, he warns that during the net few months, the company faces higher interest rates, petrol price increases and a major rise

Call	7-day
Mon.	14.87
Tues.	14.281
Wed.	14.282
Thurs.	14.266
Fri./Sun.	14.274

Rates paid to W/E 8th July 1979



## BfG Finance Company B.V.

U.S. \$100,000,000 Floating Rate Notes 1989  
 Extendible at the Noteholder's Option to 1994

Notice is hereby given pursuant to the Terms and Conditions of the Notes that for the six months from 10th July, 1979 to 10th January, 1980 the Notes will carry an interest rate of 11% per annum. On 10th January, 1980 interest of U.S. \$56.22 will be due per U.S. \$1,000 Note for Coupon No. 2.

Agent Bank: European Banking Company Limited  
 9th July, 1979

## EUROBONDS

The Association of International Bond Dealers Quotations and Yields appears monthly in the Financial Times.

It will be published in an eight-page format on the following dates in the remainder of 1979:

July	11
August	13
September	10
October	15
November	12
December	10

There is a limited amount of advertising space available each month; if your company is interested in taking advantage of this offer please contact:

The Financial Advertisement Department  
 on 01-248 8000  
 Ext. 424 or 389

## LOCAL AUTHORITY BOND TABLE

Authority (telephone number in parentheses)	Annual Interest	Life gross pay-interest	Minimum sum bond
Redbridge (01-478 3020)	11 1/2	1-year	200 4-5
Redbridge (01-478 3020)	12 1/2	1-year	200 6-7
Wrekin (0852 505051)	12 1/2	annual	1,000 4-5

## FINANCE FOR INDUSTRY TERM DEPOSITS

Deposits of £1,000-£50,000 accepted for fixed terms of 3-10 years. Interest paid gross, half-yearly. Rates for deposits received not later than 20.7.79.

Terms (years)	3	4	5	6	7	8	9	10
Interest %	12	12	12 1/2	12 1/2	12 1/2	12 1/2	12 1/2	12 1/2

Deposits to and further information from The Chief Cashier, Finance for Industry Limited, 91 Waterloo Road, London SE1 8XP (01-428 7822, Ext. 367). Cheques payable to "Bank of England, s/c FFI." FFI is the holding company for ICFC and FCI.

## ART GALLERIES

**AGNEW GALLERY**, 43 Old Bond St. W.1. 01-229 0176. Exhibition of OLD MASTER PAINTINGS. Until July 14th. Mon-Fri. 9.30-5.30. Thurs. until 7.00. Sat. 10-11. 01-222 9473.

**AGNEW GALLERY**, 43 Old Bond St. W.1. Exhibition of seveneenth century portraits. Mon-Fri. 9.30-5.30. Thurs. 9.30-5.30.

**ANTHONY OFFICER**, 9, Deane Street, New Bond Street. DAVID JONES. Mon-Fri. 10-6. Sat. 10-12. Sun. 10-5.

**DAVID CARRITT LIMITED**, 15, Duke Street. JAMES S.W. LORAN. Mon-Fri. 10-5. Sat. 10-12. Sun. 10-5.

**FIELDHOUSE GALLERIES**, 63, Queen's Gate, N.W.1. Exhibition of contemporary art. Mon-Fri. 10-6. Sat. 10-12. Sun. 10-5.

**FINE ART SOCIETY**, 148, New Bond St. W.1. 01-229 0176. SUMMER EXHIBITION and WORKS UNDER £500.

**LEVERSON GALLERY**, CONTEMPORARY PAINTINGS. Wednesdays 10-5. Sat. 10-12. At 30, Bruton Street, London, W.1. 01-229 0176.

**MARLBOROUGH**, 8, Albemarle St. W.1. 01-229 0176. Exhibition of watercolours and drawings until 31 August. Mon-Fri. 10-6. Sat. 10-12. Sun. 10-5.

**SABIN GALLERIES**, 4, Corn Street, W.1. 01-774 6186. EXHIBITION OF ENGLISH PAINTINGS 1611-1811. Mon-Fri. 10-6. Sat. 10-12. Sun. 10-5.

**SANDHURST GALLERY**, Covent Garden. 1, Mercer Street, W.C.2. 10th Lond. Acct. 01-229 0176. Exhibition of contemporary art. Mon-Fri. 10-6. Sat. 10-12. Sun. 10-5.

**WADDINGTON GALLERIES**, 31, Cork Street, W.1. 01-229 0176. Exhibition of contemporary art. Mon-Fri. 10-6. Sat. 10-12. Sun. 10-5.

**WADDINGTON GALLERIES**, 32, Corn Street, W.1. 01-229 0176. Exhibition of contemporary art. Mon-Fri. 10-6. Sat. 10-12. Sun. 10-5.

## CONFERENCE HOTELS

**BOURNMOUTH MOAT HOUSE**

For your next meeting you have conference rooms for 10-200 people (vegetarian and special diets catered for), 127 bedrooms, Spas facilities. Enquiries: Mr. Alfred Stocker, Manager, Bournemouth Moat House, Keyhaven Rd., Bournemouth BH1 3QQ. Tel: 0202 28224/282311.

**CLUBS**

**EVE** has invited the others because of a policy of fair play. Disco and live music. glamorous hostesses. Evening Beer shows. 189, Regent St. 01-222 9473.

**GARGOYLE**, 69, Dean Street, London, W.1. 11-5.30 am. Shows at midnight and 1 am. Mon-Fri. Closed Saturdays. 01-222 9473.

This advertisement is placed by N. M. Rothschild & Sons Limited on behalf of:

## AURORA HOLDINGS LIMITED

### To the Ordinary Shareholders of EDGAR ALLEN, BALFOUR Limited

A further circular containing a letter from the Chairman of Aurora was dispatched to EAB shareholders on Thursday 5th July.

You are reminded that:

- ★ Acceptances of Aurora's Offer should be received by 3.00 p.m. on Wednesday, 11th July, 1979. THE OFFER WILL NOT BE INCREASED.
- ★ The Cash Offer will not be open for acceptance after 3.00 p.m. on Wednesday, 11th July, 1979.
- ★ The Cash Offer is equivalent to 69.55p for each EAB ordinary share and represents a price earnings ratio 19.5 times forecast profit of EAB after applying a full tax charge.
- ★ The Share Offer provides an increase in dividend income of 174 per cent.

The Board of Aurora remains convinced of the advantages of the offer to both EAB and Aurora and, accordingly, you are strongly recommended to accept the offer.

The Board of Aurora Holdings Limited has taken all reasonable care to ensure that the facts stated and opinions expressed herein are fair and accurate. All the Directors of Aurora Holdings jointly and severally accept responsibility accordingly.

New Issue All these bonds having been sold, this advertisement appears as a matter of record only.



## Nordic Bank Limited

London

### Swiss Francs 45,000,000

5% Swiss Franc Bonds of 1979 due 1989

<b>Nordfinanz-Bank Zürich</b>	<b>Kredietbank (Suisse) S.A.</b>
<b>Clariden Bank</b>	<b>Lloyds Bank International Ltd</b>
<b>ARMAND VON ERNST &amp; CIE AG</b>	<b>FUJI BANK (SCHWEIZ) AG</b>
<b>BANCO DI ROMA PER LA SVIZZERA</b>	<b>GEWERBEBANK BADEN</b>
<b>BANK UND FINANZ-INSTITUT AG</b>	<b>HYPOTHEK-UND HANDELSBANK</b>
<b>BANQUE DE L'INDOCHINE ET DE</b>	<b>WINTERTEUR</b>
<b>SUEZ, SUCCURSALE DE LAUSANNE</b>	<b>MAERKI, BAUMANN &amp; CO. AG</b>
<b>CAISSE D'EPARGNE DU VALAIS</b>	<b>MORGAN GRENFELL</b>
<b>CIAL, CREDIT INDUSTRIEL</b>	<b>(SWITZERLAND) S.A.</b>
<b>D'ALSACE ET DE LORRAINE</b>	<b>SPARKASSE SCHWYZ</b>

مكاتبنا في لندن

INTERNATIONAL COMPANIES and FINANCE

PENDING DIVS.

RECENT ISSUES

CAB ready to pronounce on National Airlines bids

BY JOHN WILES IN NEW YORK

THE U.S. Civil Aeronautics Board will make its long-awaited decision tomorrow on whether National Airlines should remain independent as the country's 11th largest carrier or whether at least two takeover bids should be allowed to proceed.

Israeli bank sale approved by Knesset

By L. Daniel in Tel Aviv

THE SALE of the Israeli Government-owned Shipping Bank to Mr. Saul Eisenberg has been approved by the Knesset (Parliament) finance committee.

Earnings rise at Sanyo outpaces sales growth

TOKYO—Sanyo Electric Co., one of the major integrated manufacturers of electric appliances in Japan, announced a 15.3 per cent rise in net profit in the half-year ended May 20...

Hopes of continued profits at A & P

CHARLOTTE—Great Atlantic and Pacific Tea Co. expects to be profitable again during the current second quarter and the third quarter of this year.

Asbestos hearings extended

THE QUEBEC Superior Court has extended until today hearings on Asbestos Corporation's request for an interlocutory injunction preventing the Quebec Government from taking any action against its Quebec-based assets...

For the convenience of readers the dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table.

Table with columns: Date, Announcement, Amount, Dividend, etc. Lists various companies and their dividend details.

EQUITIES table showing stock prices, changes, and other financial data for various companies.

FIXED INTEREST STOCKS table showing interest rates and stock prices for various fixed income securities.

'RIGHTS' OFFERS table listing various rights offerings and their terms.

BASE LENDING RATES

Table listing base lending rates for various banks and financial institutions, including A.B.N. Bank, Allied Irish Bank, etc.

INSURANCE BASE RATES

Table listing insurance base rates for various policies, including fire, theft, and property insurance.

CURRENCIES, MONEY and GOLD

European rates' upward spiral

Interest rates were climbing steadily last week in Europe, as one country after another increased various rates, to create something of a snowball effect.

THE DOLLAR SPOT AND FORWARD

Table showing dollar spot and forward rates for various currencies and time periods.

EXCHANGE CROSS RATES

Table showing exchange cross rates between various currencies like the Pound, Dollar, and Franc.

LONDON MONEY RATES

Table showing London money rates for various financial instruments and currencies.

OTHER MARKETS

Table showing other market data including gold prices, silver prices, and various commodity rates.

THE POUND SPOT AND FORWARD

Table showing pound spot and forward rates for various currencies and time periods.

MONEY RATES

Table showing money rates for various currencies and financial instruments.

Large advertisement for UDRUZENA BEOGRADSKA BANKA, BEGRAD, featuring various banking services, interest rates, and contact information for Barclays International Limited.

Why change is due in knock-for-knock

BY OUR INSURANCE CORRESPONDENT

A FORTNIGHT ago I mentioned the statutory alternative to purchase of compulsory motor injury liability insurance...

By altering the terms of the standard knock-for-knock agreement, insurers hope through reallocation of fleet claims costs...

Mr. Benson complains that the change in the knock-for-knock agreement will result in the giving away of policyholders' premium regardless of liability...

Mr. Benson's final point is that the motor market is generally unwilling to provide minimum Road Traffic Act injury liability cover...

Parker Knoll senior post

Mr. L. E. D. Baskerville has been appointed marketing director of PARKER KNOLL FURNITURE...

Mr. Alan J. Harrison has been appointed manager and Mr. Saedallah Mohammadi has been appointed deputy manager of the London branch of BANK SANAYE IRAN.

Mr. W. G. Kneale has been made a non-executive director of THE ROYAL TRUST COMPANY OF CANADA...

Mr. Andrew Ronay has been appointed director of public relations of THE BRITISH ALUMINIUM COMPANY.

Mr. Maurice Holmes, head of BRITISH RAIL'S Liverpool Street division, has moved to southern region's Waterloo HQ.

Indices

NEW YORK - DOW JONES

Table with columns for Date, High, Low, and various index values for New York, London, and other markets.

AMSTERDAM

Table with columns for Date, Price, Div. Yield, and various stock prices for Amsterdam.

BRUSSELS/LUXEMBOURG

Table with columns for Date, Price, Div. Yield, and various stock prices for Brussels and Luxembourg.

SPAIN

Table with columns for Date, Price, Div. Yield, and various stock prices for Spain.

COPENHAGEN

Table with columns for Date, Price, Div. Yield, and various stock prices for Copenhagen.

VIENNA

Table with columns for Date, Price, Div. Yield, and various stock prices for Vienna.

GERMANY

Table with columns for Date, Price, Div. Yield, and various stock prices for Germany.

MILAN

Table with columns for Date, Price, Div. Yield, and various stock prices for Milan.

OSLO

Table with columns for Date, Price, Div. Yield, and various stock prices for Oslo.

PARIS

Table with columns for Date, Price, Div. Yield, and various stock prices for Paris.

STOCKHOLM

Table with columns for Date, Price, Div. Yield, and various stock prices for Stockholm.

SWITZERLAND

Table with columns for Date, Price, Div. Yield, and various stock prices for Switzerland.

HONG KONG

Table with columns for Date, Price, Div. Yield, and various stock prices for Hong Kong.

JOHANNESBURG

Table with columns for Date, Price, Div. Yield, and various stock prices for Johannesburg.

AUSTRALIA

Table with columns for Date, Price, Div. Yield, and various stock prices for Australia.

Public Works Loan Board rates

Table showing Public Works Loan Board rates for various terms and maturities.

WALL STREET

NEW YORK

Large table listing various New York stock prices, including companies like IBM, General Electric, and others.

STOCK

Table listing various stock prices from other markets, including London, Amsterdam, and others.

STOCK

Large table listing various international stock prices, including Tokyo, Hong Kong, and other global markets.

Handwritten signature or initials in a box.

INTERNATIONAL BONDS

BY FRANCIS GHILÈS

Tender feelings for the EIB

IN A major development in Eurobond market practice, the European Investment Bank last Wednesday invited 30 international banks to make competitive bids for a public Eurobond issue, the amount of which will be \$100m or \$150m, with a coupon of 9.75 per cent and a maturity of 10 years.

Banks can bid for a maximum of \$100m or \$150m. The final size of the issue will be decided by the EIB after receipt of all the bids.

After receiving all the bids, the EIB will accept one purchase price covering the entire issue and will select the most advantageous tenders. Starting with the highest bids, the borrower will thus accept all tenders down to the price at which the amount required was just covered.

The initiative taken by the EIB met with strong criticism, even from those U.S. banks which are keen to encourage the introduction of a tender system into the Eurobond market. These critics pointed out that they would rather have seen the EIB stick more closely to the rules of the game as it is in New York.

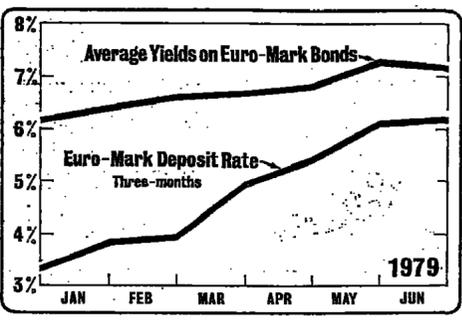
The \$50m issue for Dome Petroleum was priced at 98 1/2 to yield 10.20 per cent instead of the indicated 98 1/2 but fell to 96 1/2 as soon as it started trading. Some analysts believe that institutions are all set to move into the market and buy recent good quality issues which are trading at steep discounts. They argue that with the U.S. recession now clearly on the horizon, a rally in the bond market is bound to take place soon. Others are more pessimistic.

A tender system has long existed in the US domestic bond market but has never developed on this side of the Atlantic. Reaction among major international banks has been mixed, if not confused. Some of the banks which have traditionally bid issues for the EIB appear to have been happy. Most of the major Swiss and German banks had not reached a final decision last Friday but they gave the impression they would refrain from making a bid.

The confusion has been all the greater as there are not well established syndicates of banks in the Eurobond market, as in the case in New York. Were the tender system to spread in the Eurobond market, syndicates would eventually emerge. But last week a game akin to blind man's buff was going on among major banks to find out who was joining forces with whom to do what.

Those who welcome the idea of a tender system were also wondering why the EIB had announced it wished to give publicity through the publication of tombstones, to the amounts allotted to the different banks. They said that such action would only attract publicity seekers and in no way contribute to the success or failure of the operation.

The attempt being made by those who welcome the idea of a tender system were also wondering why the EIB had announced it wished to give publicity through the publication of tombstones, to the amounts allotted to the different banks. They said that such action would only attract publicity seekers and in no way contribute to the success or failure of the operation.



In London, reactions were mixed with many banks still wondering exactly how to respond. However, a number of leading houses were tentatively forming syndicates with the view of bidding either for blocks of \$25m worth of bonds or multiples of that figure.

The borrower does not insist that a coupon be set at the time of the launching of the issue, but leaves it to the end of the selling period.

The attempt being made by those who welcome the idea of a tender system were also wondering why the EIB had announced it wished to give publicity through the publication of tombstones, to the amounts allotted to the different banks. They said that such action would only attract publicity seekers and in no way contribute to the success or failure of the operation.

Further prices gains were recorded in the Deutsche Mark and Swiss franc sectors of the bond market while sterling bonds enjoyed a very good week, riding on the back of a rising currency. By Friday, however, activity in all major sectors of the market quietened considerably.

CURRENT INTERNATIONAL BOND ISSUES

Table listing current international bond issues with columns for Borrowers, m. Amount, Maturity, Av. life years, Coupon %, Price, Lead manager, and Offer yield %.

UK EXCHANGE CONTROLS

Removing a psychological barrier

BRITAIN'S INSTITUTIONAL investors should shortly be given much more freedom to deploy their funds overseas.

UK institutions show a wide divergence of opinions over how they will adjust their investment activities to a free environment.

choice is a dominating factor in our decision-making.

extend this trend, it says. The UK stock market presently is not able to provide a sufficient diversification in terms of say, mining or related industrial stocks, so investments frequently have to be chosen in the U.S., Australia, Germany and Japan, the fund adds.

The same insurance group has a general international fund worth the equivalent of £100m. Like most insurance companies, it is free to cover 100 per cent of its account liabilities in foreign currencies, where these liabilities come from foreign sources.

Such controls have existed for 40 years, with the most important portfolio barrier represented by the investment currency premium system.

One major multinational energy group, with a £650m domestic pension fund, indicates that it would be prepared to shift up to £10m into overseas securities, fairly speedily if most controls were lifted.

Another oil company fund, which stands at about £600m, is trading much more warily. Ten per cent of its funds are already abroad, and it indicates that matching problems could arise if this ratio was raised since all its liabilities are in sterling.

Other pension funds admit that the matching of assets and liabilities in sterling would also inhibit their investment strategies. But one explains, "In the short-term we do not try to match, as the right currency

Liberalisation of exchange control will obviously help

U.S. BONDS BY JOHN WYLES

Waiting on the Fed

ACCORDING TO some participants, it is stretching the truth somewhat to imply that there was a New York bond market last week. An extremely thin new issue calendar gave investors very little new to bite on, while an extended break from July 4 left many Wall Street trading departments operating on skeleton staffs.

As a result, trading on all four days was extremely thin, allowing ample time for speculation on likely developments during the coming week.

In its latest survey of the credit markets, Morgan Guaranty has pointed out that the rally in the bond markets since early May has coincided with a softening in overall credit demand, although the picture varies somewhat from sector to sector.

Majority opinion on Wall Street has it that the market has little to fear from the Fed this week, since the balance of argument points to maintaining the funds rate at its current 10 1/2 per cent. Broadly, it is said that the weakness in the economy evident from recent retail sales figures and falling auto sales militates against a move to raise the funds rate target, since the Fed has lost none of its reluctance to be saddled with responsibility for tipping the economy into a recession.

At the same time, the obviously high inflation rate, the burgeoning money supply statistics—11 per cent annual growth rates of M1 and M2 over

the last 13 weeks—and renewed pressure on the dollar on the foreign exchanges offer very little scope for relaxing credit.

BY JOHN EVANS

BY JOHN WYLES

FT INTERNATIONAL BOND SERVICE

Large table containing FT International Bond Service data, including columns for U.S. DOLLAR STRAIGHTS, DEUTSCHE MARK STRAIGHTS, YEN STRAIGHTS, OTHER STRAIGHTS, FLOATING RATE NOTES, CONVERTIBLE BONDS, and SWISS FRANC STRAIGHTS.

Advertisement for Nippon Densetsu Kogyo Co., Ltd. featuring 4,000,000 Shares of Common Stock, evidence by European Depositary Receipts, and a list of international agents including Daiwa Europe N.V., Robert Fleming & Co. Limited, and others.

BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

Table with columns: Date, Title, Venue. Includes events like 'The Royal Tournament', 'The World Wine Fair and Festival', 'How to sell into the Common Market Exhibition'.

OVERSEAS TRADE FAIRS AND EXHIBITIONS

Table with columns: Current, Date, Title, Venue. Includes events like 'Summer Home Furnishings Market', 'The National Houseware Exhibition', 'Wood '79-The International Forestry Development'.

BUSINESS AND MANAGEMENT CONFERENCES

Table with columns: Current, Date, Title, Venue. Includes events like 'Bradford University: Management Information and Motional Systems', 'FT/City University course: Financial Management', 'ASM: Business Laws for Directors'.

WEEK'S FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The Board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interim or final.

Detailed financial diary table listing company meetings, board meetings, and dividend payments for various companies like British Airways, British Petroleum, etc.

Tougher regime for detention centres under consideration

BY PAUL TAYLOR. THE GOVERNMENT is considering introducing a tougher regime into a limited number of detention centres in advance of possible new legislation which would allow "very short" deterrent custodial sentences for young offenders.

This week in Parliament

TODAY. COMMONS—Finance Bill, common law plans to reverse the UK's economic decline. Criminal Justice (Amendment) Bill. LORDS—Northern Ireland Orders. St. Vincent, Territory of Association Order.

For advertising details please ring 01-248 8000 Extn. 7008. LOCAL AUTHORITY BONDS. Every Saturday the Financial Times publishes a table giving details of LOCAL AUTHORITY BONDS on offer to the public.

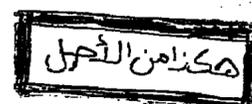
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AUTHORISED UNIT TRUSTS

Table listing various unit trusts such as Abbey Unit Trust, Friends Provident Unit Trust, and others, including their managers and performance data.

Table listing insurance and property bonds, including companies like Abbey Life Assurance Co. Ltd., Crown Life Assurance Co., and others, with their respective policies and terms.

Table listing offshore and overseas funds, including Tower Unit Trust, Trades Union Unit Trust, and others, with their investment objectives and performance metrics.

Table listing offshore and overseas funds, including Kermec Management, Jersey Ltd., and others, with their investment objectives and performance metrics.

NOTES: Please refer to the notes on page 18 for details on the data presented in this section. The data is provided for information only and does not constitute an offer or recommendation.



INDUSTRIALS—Continued

Table of industrial stocks including companies like British Petroleum, Shell, and ICI, with columns for price, change, and volume.

INSURANCE—Continued

Table of insurance stocks including companies like Royal Indemnity and Commercial Union Assurance.

PROPERTY—Continued

Table of property stocks including companies like British Land and Anglo-Continental.

INVESTMENT TRUSTS—Cont.

Table of investment trusts including companies like British American Investment Trust and Anglo-Continental.

FINANCE, LAND—Continued

Table of finance and land stocks including companies like British American Investment Trust and Anglo-Continental.

WAKO SECURITIES CO., LTD. Tokyo, Japan. London Branch Office. 15th Floor, The London, London, W.C.2 9JG.

MINES—Continued AUSTRALIAN

Table of Australian mining stocks including companies like BHP, Anglo-Australian, and Mount Isa Mines.

TINS

Table of tin stocks including companies like Anglo-Tin and Tins.

OVERSEAS TRADERS

Table of overseas traders including companies like Anglo-Continental and Overseas Traders.

RUBBERS AND SISALS

Table of rubber and sisal stocks including companies like Anglo-Rubber and Sisals.

TEAS

Table of tea stocks including companies like Anglo-Tea and Teas.

Sri Lanka

Table of Sri Lanka stocks including companies like Anglo-Sri Lanka and Sri Lanka.

MINES CENTRAL RAND

Table of central rand mining stocks including companies like Anglo-Rand and Rand.

EASTERN RAND

Table of eastern rand mining stocks including companies like Anglo-Eastern and Eastern.

FAR WEST RAND

Table of far west rand mining stocks including companies like Anglo-Far West and Far West.

O.F.S.

Table of O.F.S. stocks including companies like Anglo-O.F.S. and O.F.S.

FINANCE

Table of finance stocks including companies like Anglo-Finance and Finance.

DIAMOND AND PLATINUM

Table of diamond and platinum stocks including companies like Anglo-Diamond and Diamond.

INSURANCE

Table of insurance stocks including companies like Royal Indemnity and Commercial Union Assurance.

PROPERTY

Table of property stocks including companies like British Land and Anglo-Continental.

TRUSTS, FINANCE, LAND

Table of trusts, finance, and land stocks including companies like British American Investment Trust and Anglo-Continental.

FINANCE, Land, etc.

Table of finance, land, and other stocks including companies like British American Investment Trust and Anglo-Continental.

FINANCE

Table of finance stocks including companies like British American Investment Trust and Anglo-Continental.

REGIONAL MARKETS

Table of regional markets including various international stock exchanges and their performance.

OPTIONS 3-month Call Rates

Table of options and 3-month call rates for various currencies and markets.



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## Carter calls in U.S. business leaders to oil crisis talks

BY DAVID BUCHAN

PRESIDENT CARTER yesterday summoned top business leaders along with his energy advisers to his Camp David retreat. It was the third day of extraordinary consultations that may extend into mid-week, to plot new courses for the U.S. oil and economic policy whose impact will bear directly on Mr. Carter's political future.

Last week he abruptly cancelled a scheduled nationwide energy announcement, which he deemed insufficiently prepared to cross the political watersheds his Administration has now reached.

The political crisis, posed by the confused muddle in U.S. energy policy, has been underlined in a leaked memorandum to the President from his top domestic adviser, Mr. Stuart Eizenstat comparing the damage to that done by previous Administrations by the Vietnam war.

"Nothing else has so frustrated, confused, angered the American people — so targeted their distress at you

personally, as opposed to your advisers, or Congress, or outside interests," Mr. Eizenstat said in the memorandum about petrol shortages written at the end of June and since published by the Washington Post.

The magnitude of the crisis is reflected in the polls where, Mr. Eizenstat noted, the latest Harris survey "shows something never seen before — a Republican opponent, Ronald Reagan, leading you by several points."

The highly embarrassing leaking of this document is seen as symptomatic of the difficulty the Carter Administration has had in presenting a united front to the energy challenge.

Mr. Carter was nevertheless portrayed by White House officials as continuing, undismayed, painstaking efforts to build a public consensus behind new energy initiatives — meeting several state governors at Camp David on Friday and Saturday, and with Democratic Party officials on Saturday.

The outcome of the Camp

David deliberations — which Mr. Carter is likely to announce in a re-scheduled television address — will be eagerly awaited at home and abroad, where the U.S. commitment to keep its oil imports to 8.5m barrels a day up to 1985 is considered vital to lessen upward pressure on world oil prices.

Vice-President Walter Mondale partially lifted the veil of secrecy surrounding the Camp David weekend talks, saying that Mr. Carter was seeking consensus for a new standby rationing plan to replace the one voted down by Congress in May.

The long queues outside petrol stations in many parts of the U.S. since then are thought to have changed the mood in Congress, which is now expected to give the President such standby rationing priority, if he asks for it.

The Administration is also reported to have agreed to push development of synthetic fuels up to between one and two million barrels a day. There

would be strong support in Congress for such a move.

But there is apparently no agreement on the controversial proposal to scrap immediately Government controls on the price and allocation of domestic oil. This is favoured by Mr. James Schlesinger, the Energy Secretary, who has argued that price controls should be removed at once, instead of gradually over the next two years.

He has also criticised the present allocation system — which his own energy department administrators — as putting "the gasoline where the cars are not."

But Mr. Carter's political advisers, including Mr. Eizenstat, regard a further boost in this way to oil prices as political suicide.

Mr. Schlesinger's influence inside the Administration has waned with the mounting public criticism of his handling of energy policy and of his failure to present a coherent picture to a confused Congress and public.

## Callaghan moves to thwart NEC Left

By Richard Evans, Lobby Editor

INTENSIVE lobbying of the trade unions to secure a change in the Leftward balance of the Labour Party's National Executive Committee has been launched with the full backing of Mr. Callaghan and moderate members of the Shadow Cabinet.

The intention is to unseat at least two Left-wing members of the Executive to try to heal relations between the Parliamentary Party headed by Mr. Callaghan and the NEC, whose leading Left-winger is Mr. Anthony Wedgwood Benn.

But Mr. Callaghan and his colleagues admit that a similar strategy has been launched prior to the last two party conferences. It foundered because of the unwillingness of leading trade unions to switch their block votes, and because of the wheeler-dealing between unions for places on the NEC and the TUC General Council.

Some moderates are no more optimistic this time, but they hope that the growing bitterness of the split between Left and Right will scare the unions into action on the grounds that continuing conflict could see Labour out of office for a decade.

Lobbying will continue through the summer union conferences and the TUC in the first week of September until the Labour Party conference in Brighton in October.

**Vulnerable**

Following the latest humiliations inflicted on Mr. Callaghan by the NEC last week — when decisions were taken against his wishes to reopen the issues of electing a leader and the annual reselection of MPs — leading members of the Shadow Cabinet are now preparing to speak publicly against the Executive.

This tactic could lead to the most significant internal party conflict since the 1950s, but shadow Ministers believe it is imperative to bring matters to a head so that the party can use the years in opposition to draft policies on which to fight the next election rather than continue internecine warfare.

The most vulnerable Left-wing members of the NEC are two members of the women's section, Miss Joan Maynard and Mrs. Renee Short, and a switch by one major union could lose them their seats. They would probably be replaced by Miss Betty Boothroyd and Dr. Shirley Sumner-Skill, two moderates.

An attempt is also being made to draft Mr. Peter Shore, shadow Foreign Secretary, to challenge Mr. Norman Atkinson as party treasurer, but Mr. Shore is unlikely to accept because of his desire to maintain the links with the Left. Mr. Atkinson is likely to repeat his comfortable win over Mr. Eric Varley.

## Dividend policy reconsidered

THE LEX COLUMN

The first days of freedom after years behind bars can be very confusing. After nearly seven years of non-stop statutory controls, company directors have got out of the habit of thinking seriously about dividend policy. Their main concern has been to pay the maximum allowable under the law and in some cases it seems as though dividends have come to be seen almost as a fixed charge rather than a reward for risk taking. Even when companies have had heavy moments of freedom — when making a rights issue or deferring a takeover bid, for instance — the payout decision has usually been more related to long-term tactical needs than to long-term strategy.

The controls have introduced serious distortions into the capital market. They made it possible for inefficient companies to raise equity capital in order to finance excessive dividend payments — in effect giving the shareholders their own money back after the tax man and inflation have taken out their bite.

Historic cost

However, the figure that really matters these days is the cost of the dividend in relation to current cost earnings. Phillips and Drew estimate that cover of 2.6 times on historic cost earnings would fall to 2.0 times on earnings calculated according to ED 24. And although there are no golden rules, that seems to be much too cautious a payout ratio for most UK companies to adopt.

Current cost earnings are a measure of what is left to a company after it has put enough aside to maintain the existing shape of the business in real terms. There are arguments about the proper definition of central maintenance in this context, but ED 24 is a reasonably conservative way of doing the figures since it does not take into account the full benefit of gearing on fixed assets. So in theory a company which had no prospects of achieving real growth ought at least to consider the possibility of paying out its current cost earnings in full. And a company which was making reasonable profits in a business which was actually contracting ought to pay out more than its current cost earnings. There is nothing sacrosanct about size.

Company managers will find all sorts of excuses for being more conservative. They will argue that they need to retain earnings to finance future growth, and that they need to keep a safety margin so as to be able to maintain their dividend in bad years, as well as good. But these claims cannot be taken too far, especially in a stagnant economy like that of the UK. Genuine growth companies can finance themselves with rights issues. Others may wish to build up retentions in order to finance diversification — but it is at least arguable that such moves are

more to gratify the immediate interests than those of the shareholders who can protect their portfolio themselves, without having to pay the high premiums involved in outright buy-outs.

Some element of safety margin is certainly worth having for the stock market's ruthless way of treating shares of companies that their payments of dividends are insufficient to support. Insurance companies, for example, provided that their policies clearly stated, companies would not be afraid of being or lowering their dividends in line with short-term earnings trends.

One fear expressed by some companies in private is that the rapid adjustment in the payout ratio could create a deluge of wage negotiations. Yet BP, for instance, can point out that the increase in this year's payment will be more than twice the growth in dividends back into line with the growth in its earnings over the past decade. And it is dangerous to be too trade-unionist, whatever the politicians say today. There can be assurance that the dividend window will not shut again at some point. Dividend freedom has become the exception rather than the rule, and since 1965 there have been just three years in which no form of restraint has been imposed.

**Decisions**

Now that the end of statutory controls is only weeks away, directors have some tricky decisions to take at a time when, as GEC remarked plaintively last week, "appropriate standards of yield and cover have not yet been established." GEC's decision to limit its dividend increase to a level which left the payment covered more than five times by retained earnings was not universally popular — especially when contrasted with a statement shortly afterwards from BP which promised that its dividend this year would be more than doubled. So the quicker the appropriate yardsticks can be established, the better for everyone concerned.

Inflation has changed the ground rules considerably since the last period of dividend freedom. It has meant that figures for dividend cover based on historic cost profits have become increasingly overstated, and it has tended to make company directors more cautious about the need for retentions. This, just as much as the existence of statutory controls, explains why the average level of dividend cover has risen steeply since the middle of the 1960s.

Stockbrokers Phillips and Drew have calculated that in

order to finance excessive dividend payments — in effect giving the shareholders their own money back after the tax man and inflation have taken out their bite.

order to finance excessive dividend payments — in effect giving the shareholders their own money back after the tax man and inflation have taken out their bite.

## Hattersley warns Labour councils

BY DAVID CHURCHILL

MR. ROY HATTERSLEY, Shadow Environment Secretary, yesterday urged local authorities to "use the law at every level" to frustrate the Government's attempts to cut local government spending by £800m.

Mr. Hattersley, who was speaking at a London conference of local authority Labour groups, made it clear that outright confrontation of the Government's cuts would be a "tactical error."

He said that Labour coun-

cils which broke the law and became "another Clay Cross" would enable "our enemies to focus attention on the behaviour of one or two councillors and thus divert interest from cuts in services endured by millions of families."

However, he believed that councils could limit the Government's ability to dictate where the cuts should be made. "It is for each authority also to decide if it can in effect avoid any cuts in services at all," he said. "You must use the right that

the law provides to decide whether cuts or rate increases, or other sorts of financial arrangements, are the right answer for your own area."

He stressed that the Government did not have the power to take "punitive action" to drive back into line any council that attempted to protect services from the cuts and he promised that the Parliamentary Labour Party would fight "to prevent local authorities simply becoming the cyphers of central government."

Yesterday's meeting of delegates from over 60 local authority Labour groups unanimously agreed to campaign against the proposed cuts. The campaign would involve all Labour groups on councils as well as trade unions and Labour MPs.

Mr. Hattersley called on Labour councillors to expose the effects of the cuts by making "a precise and specific calculation of what the cuts will mean in their area — the teachers not recruited, parks left overgrown, roads not repaired and so on.

## Imported cars market

In June the total was just under 20,000, although the Cortina remained its top seller. Fiesta sales, which have been running at about 7,500 a month, were down to 5,800 in June.

BL, with Austin Morris division cars in free supply, took advantage of the boom in demand — the market being particularly buoyant even before pre-VAT-rise buying gave it another boost.

BL's market share moved up to nearly 21 per cent. It could have done better if problems with a new paint plant had not cut the availability of some Jaguar-Rover-Triumph models.

Among the traditional importers, Datsun led the way in June, but over the half-year Datsun has been overtaken by Renault of France, whose six-month sales were 5.49 per cent of the market. Datsun, suffering with the other importers of Japanese cars from supply constraints, had 5.38 per cent.

At the same time last year Datsun had 6.56 per cent and Renault 4.18 per cent.

Sales of Japanese cars accounted for 10.9 per cent of the June total against 9.3 per cent in June 1978. For the six months the Japanese market share was down from 11 per cent to 9.8 per cent.

The top 10 cars in June were: 1. Ford Cortina (19,901); 2. Ford Escort (15,208); 3. Austin Morris Mini (10,204); 4. Austin Allegro (9,836); 5. Morris Marina (7,491); 6. Ford Granada (6,162); 7. Ford Fiesta (5,874); 8. Ford Capri (5,112); 9. Vauxhall Chevette (4,955); 10. Vauxhall Cavalier (4,766).

## Paper on bank accounting code may be published despite hitch

BY MICHAEL LAFFERTY, BANKING CORRESPONDENT

A CONTROVERSIAL discussion paper on international bank accounting practices may be published in spite of last-minute problems with central bankers.

But the paper, prepared by the International Accounting Standards Committee — the rule-making body on international bank accounting matters, will not carry the same degree of support from the Basle Committee of Banking Supervisors as the accounting bodies had expected.

The committee, which includes supervisors from the Group of Ten central banks and Switzerland, and is chaired by Mr. Peter Cook from the Bank of England, will simply welcome the paper as a contribution to the debate on bank accounting.

## Saudis confirm 'very exciting' oil find

BY JAMES BUCHAN IN JEDDAH

A SENIOR Saudi Arabian official has confirmed the discovery of a sizeable oilfield in Saudi's eastern province.

Dr. Abdul Hadi Taber, governor of the State petroleum organisation Petromin, said last night that the new field is in the northern Empty Quarter, the Kingdom's vast south eastern desert. In a zone called "designated area two" by Aramco, which lifts 97 per cent of Saudi

of a bank and to cause uncertainty as to the full extent of shareholders' interests." As a result financial statements cannot present a true and fair view as to financial position or results.

Uncertainty about the future of the discussion paper, some of whose sentiments are said to be found particularly worrying by a number of EEC central banks, led the IASC to state:

"The IASC has not had any official response from the Group of Ten regarding its decision on the extent of support, if any, it will give to the IASC discussion paper on bank disclosures."

"It would be a disappointment to the Board of IASC if the Group of Ten should decline to lend its support to the paper, and what we would do in this case has not been decided."

## Major court battle over Iran's telephones

BY ANDREW WHITLEY IN TEHRAN

GENERAL Telephone and Electronics, the U.S. telecommunications group, and Iran's Government have embarked on what is likely to be a long and acrimonious dispute over the future of Iran's massive telephone expansion programme and the troubled political relationship with the United States.

At the weekend the American company, which serves 14.3m domestic and 2.1m international telephones, lodged an appeal against a restraining order from a Tehran court, on behalf of the Telecommunications Company of Iran (TCI), preventing GT and E from drawing on the balance of approximately \$100m in a line of credit set up to fund the contract for the manufacture, installation and maintenance of 950,000 telephone lines.

Work began on GT and E's

## Major court battle over Iran's telephones

\$600m contract in the summer of 1975, and was due to be completed this year, though final contracts were not signed until December 1977. The Iranian state agency now claims that having paid out \$400m only 3,000 telephone connections are installed, but GT and E say they have installed 125,000 lines and received \$180m.

Much of the dispute centres on legal distinctions between GT and E International and its local subsidiary GT and E Iran.

The initial writ served against GT and E claims breach of contract on the grounds that GT and E International shipped \$135m worth of equipment to GT and E Iran after the latter had declared force majeure last September, when the anti-Sabah disturbances were building up, disrupting much site work.

crude and is responsible for most exploration work.

"We have not yet confirmed the size but we are very excited," Dr. Taber said. The find was announced in an interview last week by the Saudi Oil Minister, Sheikh Ahmad Zaki Yamani, who referred to a "very exciting and very big new find."

Diplomats in Jeddah suggested at the time that its quality as exciting in Saudi

Negotiations for an out-of-court settlement have continued up to the last moment, with mediation led by Dr. Ibrahim Yazdi, the Foreign Minister.

For the Iranian Foreign Ministry the GT and E dispute with TCI is a major test case in future commercial relations with the U.S. Dr. Yazdi is believed to be particularly anxious to secure a settlement because of growing fears within the provisional Government of a drift in public sympathy towards the Left.

A short-lived accord was reached on Thursday evening for the shipment of equipment to Iran, allowing TCI a breathing space to sort out the confusion around its \$3bn programme.

Apparently the compromise was initially rejected by GT and E's headquarters, pre-

sumably on the ground that the corporation should not suffer unduly from a situation it did not consider its fault. But the company later reversed its position only to find that the Government was insisting on an 18-month moratorium, and the negotiations broke down.

GT and E says force majeure was applied to only one site. It also points out that it is owed \$12.4m in long delayed instalment payments and claims Iran had shown little active interest in settling the debt. The contract is well behind schedule, but this, the company says, is due to factors outside its control.

Most foreign companies facing the problem of non-payment by Iranian Government agencies are compelled to live with the problem by the need to limit their losses, and thus seek to complete their original contracts.

**Weather**

**UK TODAY**

BRIGHT intervals. Rain in some parts.

London, S.E. and Cent. S. England, E. Anglia, Midlands, Channel 17-18°C.

Cloudy, bright intervals. Some rain later. Max. 20C (68F).

Lake District, Isle of Man, S. Cent. and E. Scotland, N. Ireland Dry, sunny periods. Max. 19C (66F).

Rest of England, Wales Cloudy with some rain, becoming dry with sunny periods. Max. 19C (66F).

Rest of Scotland Sunny intervals, showers. Max. 17C (63F).

Outlook: Dry, sunny periods.

**WORLDWIDE**

City	Temp	Wind	Cloud
Algeria	26	75	11
Amman	17	63	10
Athens	27	81	10
Bahrain	27	81	10
Beirut	27	81	10
Bombay	27	81	10
Buenos Aires	18	65	10
Calcutta	27	81	10
Cairo	27	81	10
Cardiff	17	63	10
Casablanca	24	75	10
Chicago	22	72	10
Copenhagen	18	65	10
Corfu	22	72	10
Dublin	17	63	10
Dhaka	27	81	10
Dresden	17	63	10
Edinburgh	17	63	10
Florence	27	81	10
Frankfurt	17	63	10
Geneva	27	81	10
Gibraltar	27	81	10
Hong Kong	27	81	10
Imbabura	17	63	10
Jakarta	27	81	10
Jeddah	27	81	10
Johannesburg	27	81	10
London	17	63	10
Los Angeles	27	81	10
Lyons	17	63	10
Manila	27	81	10
Mexico City	27	81	10
Moscow	17	63	10
Mumbai	27	81	10
Nairobi	27	81	10
Norfolk	17	63	10
Osaka	27	81	10
Paris	17	63	10
Rangoon	27	81	10
Rome	27	81	10
Sao Paulo	27	81	10
Seoul	27	81	10
Shanghai	27	81	10
Singapore	27	81	10
Sydney	27	81	10
Taipei	27	81	10
Tokyo	27	81	10
Washington	17	63	10
Zurich	17	63	10

# NOTICE

## to Midland Bank customers and the public

While normal services will be maintained in its branches, Midland Bank Limited regrets that as a result of industrial action threatened within the Bank delays may occur in the collection of cheques and the handling of other items. The Bank cannot, therefore, undertake that the processing of work will take place within the normal periods.

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